OCT. 28
1933

BUSINESS WEEK

BUSINESS INDICATOR

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Year ago
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Business Outlook
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20 CENTS

Acme

WAGNER FINDS A WAY—The chairman of the National Labor Board (right) and chairman Weir of National Steel conclude a successful demonstration of NRA arbitration.

Where is the money coming from to pay

The Cost of Shorter Hours?

To many employers today the misgivings about increased labor cost, increased material cost, shorter working hours, security of continued employment all seem embarrassing.

But let us read into this some facts:

Right now about 8,000,000 workers can be put to the task of modernizing factories which are burdened with obsolete and antiquated machinery. They are the men whose work it is to manufacture the machines and equipment by which the workers in American shops and offices produce the products which the American people buy.

To the plants struggling today with high-cost operations, plants that must face still higher costs with resulting higher selling price, these men offer a solution.

Such high-cost plants are now at a distinct disadvantage compared with plants which, during the past three years, modernized in order to secure profit from reduced volume.

And this disadvantage in production cost is not the sole one. The modernized plant in addition to its more favorable selling price has the added advantage of products made to greater accuracy to meet the exacting demands for precision. Here then we have the unique condition where the employer, through helping himself to profitable operation, is actually increasing the purchasing power of 8,000,000 workers in the equipment manufacturing industries.

Seldom do patriotism and self interest so combine.

The wealth-producing capacity of every worker must be increased if higher, or even present standards of living are to be secured.

It will prove a revelation to you to ask your machine builder to answer these questions of cost.

Published by The Timken Roller Bearing Company in the interest of the machinery manufacturers who are working to put profit into today's business operations—for only through profit can business continue, and workers be assured of continued employment at high wages.

THE TIMKEN ROLLER BEARING COMPANY, CANTON, OHIO

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This Business Week

CODES mean nothing at all to government employees. In several departments they are working shocking hours. • In one division of Agriculture, employees have had only one full Sunday off in the last month. The division is working in two shifts. The same set of executives have to supervise both, so the bosses work from 8 o'clock in the morning until 11 o'clock at night, including Saturdays and Sundays. All this is making the old-timers very unhappy, indeed.

HE asked for it himself. Mr. Aldrich stood up in person and demanded that the Senate committee investigate Chase Bank's dealings in Cuba.

ELECTION of a Congressman for the Bucks-Lehigh district of Pennsylvania, *Business Week* remarked, was about the only straw to show whether the Administration's popularity is rising or waning and therefore it would be watched by the whole country. But it won't be. The *Allentown Leader* reprinted the article. Two days later, Joe Grundy, late Senator, bore down upon the district and persuaded the Republicans not to nominate any candidate. He didn't choose to fight the Administration right now.

CHICAGOANS are offering bets, at attractive odds, that the Century of Progress exposition will be reopened next year, and that it will be bigger and better then. Attendance, by the way, did not take the anticipated slump after Labor Day. Already it has been decided to postpone this year's closing to Nov. 12.

JULY'S bulge in commodity prices was partly due to speculation by people "who could not tell you the difference between wheat and rye, by people who had never seen cotton growing, by people who did not know that hogs were fed on corn," said the President. That may listen well in the farm belt, but it's hooey just the same. Commodity speculators, as in the Chicago grain pits, or the New Orleans and New York cotton rings, can be accused of many things, but not of ignorance. They know their onions—or wheat, or rye, or cotton. It is also true that many of the outstanding operators started as growers of the stuff in which they now speculate.

THE President's address Oct. 22 confirmed the predictions of monetary policy which *Business Week* had been making since spring, just as the Roosevelt message to the London conference confirmed *Business Week's* confidence there would be no stabilization of dollar and pound at that time. (Excuse it, please. We don't do this very often.)

EUROPEAN chancelleries take very seriously the report that France may soon move to the Rhine, seizing now the territory she wanted when the Versailles treaty was drawn. The atmosphere surrounding French diplomats in Washington does nothing to allay alarm. It is plain enough that there is strong sentiment in France in favor of acting now, while France is still dominant.

ITALIANS don't take French friendship for granted. They say the forts along the French-Italian frontier are such forts as never were built before. The French have three lines of them, one fort to the mile in each line.

MEANWHILE Washington doubts that Germany ever will actually leave the League of Nations. Before the two years' notice will have expired, it is forecast that Germany will be back in the League with a part of the concessions she will ask.

PWA is authorized to advance money for railroad maintenance and equipment provided the loan is approved in each case by the I.C.C. Now, rather surprisingly, PWA rules this applies to trolley lines whether under I.C.C. or not.

INSTEAD of a common fight on depression it begins to look like war between the country and the city. The one happy period the farmer has known in recent years was the inflation period of last spring. Developments in Nebraska and the utterances of legislators from the rural sections give abundant proof that they are going to have more inflation or have a show-down. Coupled with this is a rising hostility to the NRA program. This, in turn, has aroused resentment in urban areas and in labor circles where the NRA is strongly backed.

GENERAL JOHNSON recently listened to a journalistic aphorism that "Recovery has got to be considered in its entirety," and promptly answered, "Not by me."

"WE have something more than 2 million and less than 4 million now back to work," says the General. "And of course costs are going up. People kick on prices. Shall we put those men back on the streets so as to reduce the cost of living?"

The Business Outlook

As the Administration turns to managed currency, all eyes turn to watch the price level. . . . Stock and commodity prices responded promptly to the stimulus from Washington. With speculators loose again, wheat gained more than 20¢ over the mid-October low. Copper rose from 7¢ to 8¼¢ . . . . Europe, with its currencies on the defensive, is also uneasy about our rapprochement with Russia, foresees a loss of Soviet orders. . . . Production lags in basic industries. The newest deal needs time to register at the factory door. Steel brought rails down to $37.75 in a bid for Coordinator Eastman's 844,000-ton order. Prospects of other winter business for the mills are not too bright. . . . Motor output is tapering off, awaiting the get-away on new models, delayed by strikes; but buyers are still rallying to dealers, anticipating price rises. . . . Public works contracts gave October construction a noble start with awards more than 50% ahead of both last month and last year, though residential building is dropping with the temperature. . . . Settlement of the coal strikes is helping the railroads; most other loadings have declined. Check transactions are not up to the usual autumn pace. . . . A rising price level will take care of a lot of worries like this.

When 31 MANUFACTURERS *in one industry* standardize on EVERDUR . . . *that's* NEWS

NOT ONE OR TWO, but 31 producers of water heaters and storage tanks . . . the leadership of an entire manufacturing group . . . have standardized on Everdur for non-rust tanks. Significant evidence of how well this exclusive Anaconda Metal meets the requirements of an exacting industry!

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Everdur is one of several Anaconda Metals which alert executives are putting to advantageous uses. Some are bettering their products . . . getting far more for their money in greater value and additional sales appeal. Others are materially reducing costs without any sacrifice in quality. Perhaps one or more of these Anaconda Metals will enable you to meet present conditions better. Our wealth of practical metallurgical experience, gained through a century's close cooperation with industry, is at your disposal.

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BUSINESS WEEK

OCTOBER 28, 1933

Managed Dollars

Roosevelt announces a monetary policy—gradual devaluation, eventual stabilization with a new kind of dollar. He clears up many points, but important details are still obscure.

PRESIDENT ROOSEVELT'S radio address to the nation undertook to allay two kinds of unrest that were retarding recovery, the unrest of agriculture demanding a more equitable relationship of the buying power of their dollar to that of industry, and the unrest of business, seeking information and assurance as to the monetary policy of the country. The President seems to have succeeded better in his first effort than in the second.

Questions Settled

As to monetary policy, the President gave exact and categorical answers to many questions that have troubled business leaders and financiers the world over. Other doubts and perplexities were more opaque when he left the microphone than when he began to speak. Among the pieces of business intelligence about which there can be no misunderstanding are these:

(1) There is no basis for the widely held belief that the Administration in recent days has turned orthodox in its monetary thinking.

(2) The price level is still unsatisfactory and every means at the disposal of the government will be used not only to advance commodity prices further but also to bring about a more equitable relation between the agricultural and the industrial dollar.

(3) Managed currency is the aim and the ideal of the Administration.

(4) Efforts will be made to free the dollar of the influence of foreign exchange markets in so far as is possible.

(5) A government gold market will be the first new weapon of the government in giving effect to its partially revealed monetary policy. The ammunition is a large premium over the world gold price.

Questions Raised

The doubts and preplexities left in the wake of the President's address have to do primarily with the methods by which it is proposed to bring about the reforms announced and what will be the effect of those methods on the business of the world. The most immediate and important of these questions alluded to Mr. Roosevelt's specific promise of a managed currency. The essence of this promise is found in these words:

"When we have restored the price level, we shall seek to establish and maintain a dollar which will not change its purchasing and debt paying power during the succeeding generation."

Keystone

PROFESSOR WARREN — Outstanding advocate of the commodity dollar and dollar devaluation, often consulted by the President, he has a tremendous following among farmers.

It is assumed that the President meant a dollar that will not change materially or violently, since the most confirmed advocates of managed currency or a commodity dollar have never contemplated a monetary unit absolutely invariable. This idea of stability contemplates reducing the influence on dollar values of accidents of international trade, internal policy, and political disturbances in other countries.

To this end the government "must take firmly in its own hands the control of the current value of our dollar." The only information as to how this dollar stability is to be brought about is contained in the announcement that the Reconstruction Finance Corporation is authorized to buy gold newly mined in this country at prices to be determined from time to time, and to buy or sell gold in the world market.

Policy, Not Expedient

The President has described this move as a policy and not an expedient. Neither economists nor international bankers believe that the degree of dollar rigidity suggested by the President's speech can be achieved by the manipulation of the gold market alone. This leads to a rather general conclusion that something in the nature of a commodity dollar, its gold content changed frequently to compensate for price fluctuations, is contemplated by the President.

The President's address was translated into world prices immediately. The dollar declined nearly 2¢ in relation to gold currencies Monday. There was an upward rush of prices on the Stock Exchange, led by the gold stocks. Wheat advanced close to the legal limit of 5¢ a bushel. The trend was followed not only by domestic commodities but also by cotton, rubber, sugar, coffee, and many other raw materials in world markets.

Many Schemes Suggested

The hope that some management of the gold value of the dollar would be undertaken has been almost universal, but schemes put forward for its regulation have varied almost as widely as the motives of those who suggested them. Agriculture on one hand has demanded inflation, even to the extent of printing fiat money, while the most orthodox banking groups have been content to recommend a stabilization fund to prevent extreme fluctuations until a decision is reached as to the ultimate gold content of the dollar. The need of control has been obvious. Since gold trading was abolished the dollar has drifted without definite relationship to anything. It has been the pawn of the money game as played by international bankers and European exchequers.

There has been little criticism from any quarter of the President's plan to trade in gold for the purpose of stabiliz-

ing the dollar and guiding it toward its ultimate goal. This is more or less what has been done by the British and the French. Experience seems to suggest that orderly inflation and revaluation cannot be accomplished without some such national control.

First Gold Price

At the opening of the gold market Wednesday the Treasury announced a gold price of $31.36, as compared to a London price of $30.99. Thursday London went to $31.06, Washington to $31.54. This is taken to indicate that the President intends to drive the world price of gold upward and depreciate the dollar in exchange markets by maintaining a premium on the world price.

So large a premium as that established initially would be a powerful weapon in the hands of the Administration if it could be maintained. It has far more significance than its effect on the 25,000 or 30,000 ounces of gold produced in this country weekly. However, the President has no copyright on his plan. All central banks and national treasuries are free to participate in the game. Its potentialities are boundless. If a gold war should develop, the incident would not be without precedent. It would have a profound effect on currency values in all countries. Nevertheless, if the President were able to order all of the circumstances attending his experiment, economists generally are inclined to doubt that complete and enduring stabilization of domestic prices can be accomplished by the manipulation of gold alone.

The Warren Dollar

This leads to a rather general conclusion that President Roosevelt is leaning toward the sort of a commodity dollar advocated by Prof. George F. Warren of Cornell University, who has been in close contact with the President and his advisors in recent weeks. Professor Warren's theory is that, instead of the gold value of the dollar being fixed, it should be adjusted from time to time, and probably quite frequently, so that the commodity price average would remain approximately stationary, while the gold content of the dollar fluctuates. As Dr. Warren puts it:

"The dollar has to be rubber either as to weight or value. It can never have a fixed weight and a fixed value. This proposal would give it a fixed value and a rubber weight."

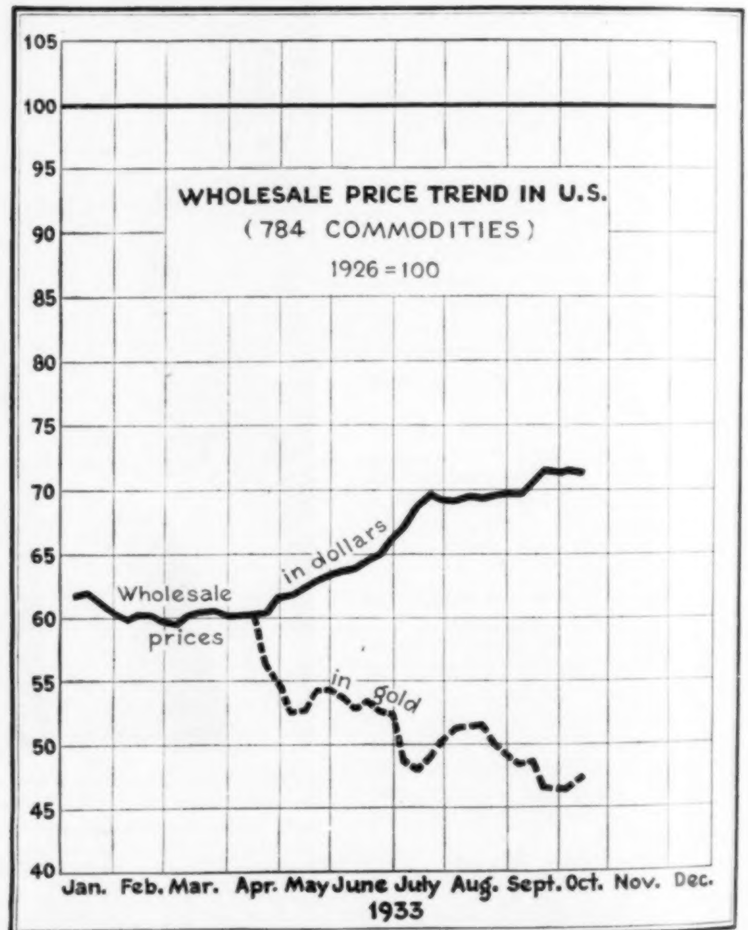
Just that is the consideration which is most disturbing to orthodox bankers. It is an unsteady or fluctuating dollar which they fear most. As a matter of fact, the gold market about which the President has given so little information might easily become the equivalent of an equalization fund. The purchase and sale of gold more quickly affects the international value of currencies than trading in bills. While France was going through her period of inflation and preparing to put a new value on the franc, trading in gold was depended upon to exert the larger influence on world markets.

The result of that program is that France today is one of the few important nations remaining on the gold standard and has the second largest store of monetary gold in the world.

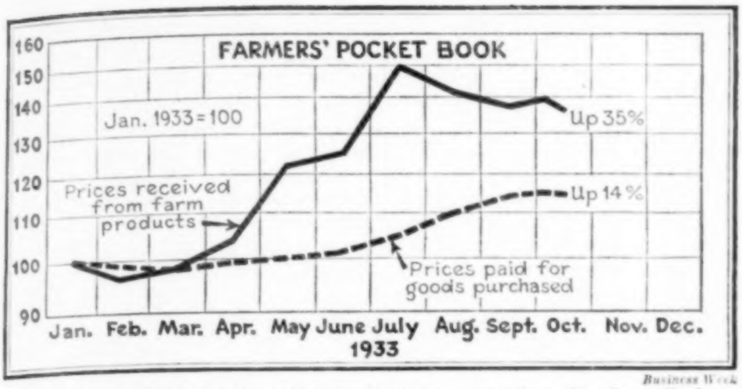
It seems to be generally expected that our experience from the middle of April to the middle of July will be repeated. There will be talk of a flight from the dollar and some manifestations of that tendency. Already investment counsel and bankers are gathering information and trying to determine the advisability of suggesting that their customers turn from fixed income securities to partnership shares. This may have an unfavorable influence on the bond market temporarily, and at a time when efforts are being made to overcome the handicaps of the federal Securities Act and stimulate the financing that is essential to meet maturities and finance the heavy industries.

Rule Reversed

The good old rule in the textbooks says that currency inflation stimulates exports and retards imports. The rule is mathematically sound, but it overlooks natural human impulses which at times have completely reversed it. When we left the gold standard and the dollar was cheapened, industry rushed to buy, before the dollar depreciated further, huge stores of rubber, tin, coffee, and other materials to be needed in the anticipated revival. On the other hand, the foreign importer, pleased at the prospect of a cheaper dollar, saw no reason to hurry about his purchases since it seemed certain that the dollar would be still cheaper tomorrow. Perhaps this suggests something of our experience during the next few months. Certainly it demonstrates that many of the old-time rules of business are poor sign-posts in such times as these.



THE FORK IN THE ROAD—The chart shows (1) the price of goods at wholesale in dollars, and (2) in gold. Elaborating, the lower line shows what a Frenchman paid for our goods at American ports. The upper line shows what we paid. The lower line suggests what might have happened had we stayed on the gold standard. The spread is not yet wide enough to suit the Administration.



HOW THE FARMER FARES—**Prices the farmer gets for what he sells have increased more than those he pays for manufactured goods.**

Appeasing the Farmer

Farm income in 1933 promises to be $2 billions higher. Leaders marshal discontent out of habit, but fail to produce distressed farmers. Threat of farm revolt brings new concessions.

THE farm revolt has borne fruit. Threats of a farm strike, even though initiated by one of the less responsible and more truculent farm organizations, coupled with sporadic picketing of farm trucks in Iowa, an embargo on wheat declared by the governor of North Dakota (disavowed by governors of other wheat-producing states) and a bolt from the NRA led by Governor Bryan of Nebraska, in which a former governor, Keith Neville, participated by resigning as state NRA chairman, all gave the impression that the farmer was in a fighting mood and that farm revolt was widespread and imminent.

Relief Is Speeded Up

Washington didn't wait to see whether the revolt was genuine or manufactured; the high-geared relief machinery of the Agricultural Adjustment Administration and the Farm Credit Administration was immediately speeded up. The President himself went before the country. Speaking on the radio to the nation as a whole, but more pointedly to the farmer, he emphasized that he is working for higher farm prices and that farmers will be protected from foreclosure. Incidentally he took the occasion to remind farmers that 60 million or 70 million people who live in the cities and larger towns have been willing to be subjected to processing taxes in order that the farmer may have higher prices. By implication, he told the agrarian revolters that he expected from farmers equal willingness to accept, as a consequence of NRA, reasonably higher prices on commodities they buy.

Farm representatives in Washington who feel that they must earn their salaries seem to have overplayed their hand. They made a spectacular attack on the offices of Mr. Morgenthau and told him that farmers were about to be thrown out of their farms right and left by foreclosures of mortgages. When Mr. Morgenthau told them to wire him collect the details of any foreclosure proceedings under way and promised immediate attention, they were able to muster only about 40 cases a day and, in all cases, these were merely threatened foreclosures, not yet to the point where emergency action was required.

Unable to make good with the proper exhibit of distressed farmers, they proceeded to shed other tears on the President's shoulder. Since July, they said, the index of farm prices has dropped over 9%, while prices of the goods that the farmer has to buy have increased over 8%. In consequence, the farm dollar has decreased from 71¢ in July to 59¢ in the middle of October, a decline of 15%. Answering this on the radio, the President said that July prices had been pushed up too rapidly by speculators who couldn't tell the the difference between wheat and rye. He added that, while he is not satisfied with farm prices and proposes to push them to a higher price level, farmers have no grievance when they compare their position, not with last July, but with last March.

He estimates that, in spite of the recent drop in prices and even with a lesser production, because of bad weather conditions, the farmer will get for the crops he produced in 1933, 33% more dollars than he received in 1932.

However, the agitation of the farmers did not dissolve itself in mere forensic between the President and the farm leaders. Supporting his renewed pledge of higher prices for farm products and protection from foreclosures, the President in his talk to the country indicated definite devaluation of the dollar in terms of gold. True, economic and financial experts are not yet agreed what this particular action means in terms of prices but it has satisfied farm leaders in Washington. Senator Thomas of Oklahoma has expressed satisfaction; Mr. Peek, of the Agricultural Adjustment Administration, sees the farmers reassured. No comments have as yet reached us from the tall grassy country. Milo Reno, president of the Farm Holiday Association, demands that there be a farmers' code which would prevent the sale of any farm product below cost of production. On this the Administration is like Barkis; it is willing, if Reno will just work out the simple details of determining just how this should be done.

Though unable to present a detailed program, the Farm Holiday Association has presented an objective of farm prices. They are as follows: Wheat $1.35 bushel, corn 92¢, oats 49¢, barley 73¢, rye 77¢, clover seed $19.74, tame hay $17.66 ton, hogs $11.25 cwt., wool 40¢ cwt., chickens 24¢ a pound, butterfat 62¢ a pound, eggs 35¢ a dozen.

More Tax Plans

In the meantime, the Department of Agriculture is working out plans (1) to increase benefit payments to farm producers through the increase of present processing taxes on wheat and cotton and those that are to be levied on corn and hogs and (2) to extend the program of price fixing through loans to producers, such as have already been introduced for cotton, and are now under consideration for sugar beets and cane.

Store-Door Delivery

Pennsy's competitors will match its new service, if successful.

NEW YORK CENTRAL is sitting tight as the Pennsylvania inaugurates store-door collection and delivery of less-than-carload merchandise freight throughout its territory. Boston & Maine and Maine Central which, with the Central Vermont, joined in Pennsylvania's tariffs, will carry the service into the New England states.

That the other roads will have to meet the competition of Pennsylvania's experiment if successful is instinct in the announcement by Dick Lawrence, chairman of the Traffic Executives Association, that action to be taken by them will be considered at another meeting at an early date.

Soviets Invited to Washington

President Roosevelt takes initiative to end 16-year rupture with Moscow. Trade treaty expected with recognition; first orders depend on RFC credits

On the top of a pile of official mail placed before President Kalinin in Moscow a few weeks ago was a letter from President Roosevelt. It read:

"Since the beginning of my Administration, I have contemplated the desirability of an effort to end the present abnormal relations between the 125 million people of the United States and 160 million people of Russia. . . . Difficulties between great nations can be removed only by frank, friendly conversations. If you are of a similar mind, I should be glad to receive any representatives you may designate to explore with me personally all questions outstanding between our countries. Participation in such a discussion would, of course, not commit either nation to any future course of action, but would indicate a sincere desire to reach a satisfactory solution of the problems involved."

The reply from the Soviet President, dispatched promptly to Washington, read:

"I gladly accept your proposal to send to the United States a representative of the Soviet government to discuss with you the questions of interest to our countries. The Soviet government will be represented by M. M. Litvinoff, People's Commissar for Foreign Affairs, who will come to Washington at a time to be mutually agreed upon."

After All These Years

After a break of nearly 16 years, it seems now that official relations between Moscow and Washington are to be revived. M. Litvinoff is on his way to Washington. State Department officials are preparing the final data which President Roosevelt has requested before the negotiations open. Washington is likely to recognize the Soviet Union sometime before Christmas.

There are 2 sets of problems to be discussed at the meetings in Washington. One is diplomatic and involves, in the case of the Soviet Union, a consideration of pre-Soviet debts which the present government has never officially recognized, some promise not to agitate in this country for world revolution, and finally an agreement on numerous formalities including the choice of diplomatic representatives who will be exchanged. The second problem is the drawing up of a trade accord. The present Administration in Washington, unlike its predecessor, does not consider Russia "an economic vacuum."

The diplomatic problem, beyond the consideration of pre-Soviet debts, should not be great. Both Moscow and Washington are in a mood to compromise; both believe that little can be gained and much lost by continuing the present rupture; and both think the opportune moment has arrived to settle the matter.

Those Old Debts

Debts, though they may cause some controversy, probably can be settled. Foremost is the war loan of $187 millions (reckoned at about $330 millions with accumulated interest). Besides this there are bank loans to former governments which totaled $85 millions (without interest), and claims of private industries for confiscated property. At one time these commercial claims were estimated at $200 millions, though some of these have been tacitly absorbed by the present government in new business with the parent firms in this country. Total claims are estimated at $500 millions. Against these the Soviets will place their claims for property damage by the American Army of Occupation. Exact figures are not yet available in either case. Both sides are expected to make concessions on the basis of future business. It is significant, however, that the Soviets, in treaties which they signed with a number of countries which were creditors of former régimes in Russia, agreed to give all old creditors equal consideration. It is possible that the agreement at Washington will become a criterion for the settlement of all pre-Soviet obligations. The present government has no obligations which are not being met regularly.

Commercially, there are 3 problems to be settled by the negotiators at Washington. Moscow will ask that the barriers against the entry of certain Soviet products be removed, that adequate credits be provided to finance Soviet business on the same or a better basis than has prevailed in Europe, and that reciprocal trade be encouraged.

Business Prospects

Business Week several weeks ago suggested what volume of business might be expected to result from a new Soviet trade treaty (*BW—Sep23'33*). Fortunately, Moscow has chosen as its representative to Washington the man who has given the best estimate of the volume of business Russia is ready to place abroad if proper credits can be arranged. Litvinoff told the World Economic Conference in London in July that Russia was prepared to place $1 billion in foreign orders, about $400 millions of which would be spent on machinery, and $50 millions on ships, mostly for fishing, seal-hunting, and dredging vessels. Another $200 millions might be spent on ferrous metals.

Business Week has also pointed out that Russia is in need of more steel than her plants have yet been able to produce, more automobiles, trucks, tractors, locomotives, and even such raw materials as cotton and aluminum and copper.

Economically, the Soviets have improved their position in the last year. Imports so far this year have been cut to the point where there is a favorable balance of trade. Total foreign indebtedness has been reduced $225 millions in the last 2 years. In the United States, it has been reduced from $70 millions to not more than $25 millions. Gold reserves in Moscow exceeded $390 millions in July, compared with only $357 millions in July 1932, despite the fact that more than $136 millions were shipped to Berlin to meet maturing obligations.

Expectation that $1 billion in orders from Moscow will be placed as soon as the negotiations are completed is absurd. Over a period of several years that much business might be placed in this country. But conservative opinion in the United States looks for $50 millions to $75 millions of orders in the first year, provided the RFC is willing to arrange favorable credits. This means credits which will extend at least 3 or 4 years, possibly as much as 10 years, and on which there will be a comparatively small cash payment.

The real value of the meeting in Washington will be the agreement of the 2 countries to carry on trade relations on a normal basis. If this is provided, business will do much for itself in the developing of trade with the Soviet Union.

Russian Orders

Amtorg—Moscow's official trading office in New York—expected to expand if trade relations are restored with recognition.

Probably the busiest export office in New York in 1930 and 1931 was that of the Amtorg Trading Corp. at 261 Fifth Avenue. More than 450 workers were employed to handle the $200 millions of orders which were being placed in this country by the Soviet government through its single agency in the United States, the Amtorg. Hundreds of American technicians were employed to supervise the industrialization projects in Russia, and dozens of Soviet delegations came to this country to inspect American plants, study American technical methods, place orders for American equipment. All this was handled by the Amtorg.

When the Soviets found they could get better terms in Germany, Italy, and Great Britain, orders were placed there instead of in the United States. Purchases in this country dropped to a little over a million dollars a month in 1932 and have continued at about that rate this year. Office space occupied by the Amtorg was reduced, personnel was cut in half.

Since the announcement that M. Litvinoff would come to Washington to talk with President Roosevelt about renewed diplomatic and commercial relations, activity at the Amtorg offices has revived.

Peter A. Bogdanov, head of the organization, is the Soviet Union's ranking citizen in this country until an Ambassador is sent to Washington. His duties to date have been purely commercial; and they will probably remain so. But if even a fraction of the anticipated trade revival develops, the Amtorg office will again become the center for all trade negotiations between the Soviet Union and the government of the United States.

The "Merit Clause"

Roosevelt kills the "merit clause" with such art that industry is happy.

THE "merit clause" that dozens of industries tried to get into their NRA codes as soon as the automobile industry got it through as a gesture of warning to over-zealous labor organizers got its coup de grace this week. The President killed it with the finished technique of an old matador. The simile is apt; it was art, not butchery, for industrialists got about as much satisfaction from the President's words as they would have felt had the clause been permitted to ride through.

The warning is stricken from the codes, but its substance is contained in the Roosevelt letter to General Johnson that killed it.

"Because it is evident that the insertion of any interpretation of Section 7(a) in a Code of Fair Competition leads only to further controversy and confusion," the President wrote, "no such interpretation should be incorporated in any Code. While there is nothing in the provisions of Section 7(a) to interfere with the bona fide exercise of the right of an employer to select, retain or advance employees on the basis of individual merit, Section 7(a) does clearly prohibit the pretended exercise of this right by an employer simply as a device for compelling employees to refrain from exercising the rights or self-organization, designation of representatives and collective bargaining, which are guaranteed to all employees in said Section 7(a)."

The letter will release a flood of codes. Dozens now will be sent to the President for signature. They are all ready, but they contain the merit clause. This will be stricken out, and the codes then forwarded. Employers will not feel aggrieved as they might were the clause to be handled in each code separately; union leaders will not be able to gloat over a series of individual eliminations of the clause.

The code of the rubber manufacturing industry (other than tires) which was heard this week, carried the revised form of the "merit clause" suggested by John Gall of the National Association of Manufacturers (*BW—Oct21'33*) in this form, "No employee and/or no one seeking employment, shall be deprived of his right to employment, promotion, or wage increase on the basis of individual merit without regard to his membership or non-membership in any organization."

Whether this will "get by" is a new problem.

Acme

RANKING RUSSIAN—Soft-spoken Peter A. Bogdanov is chairman of Amtorg Trading Corp., and the only official Soviet representative in this country, where he directs all Soviet purchases. Foreign trade is a state monopoly in Russia; all U. S. trade is handled through the Amtorg. His duties will expand rapidly if Roosevelt-Litvinoff conversations lead to recognition and a trade treaty.

Strike News

Labor disturbances quiet down under arbitration treatment.

NEW things and spectacular things make newspaper headlines. Strikes satisfied neither requirement this week—unless they were farm strikes—so casual readers had little guidance to what's happening in labor disturbances that broke all over front pages a while ago. Have the strikers tired, or just the reporters?

The best answer is, "Both." Strikes are still going on even if they don't interest the feature writers. But more have been going out and fewer coming in since (1) the President threw his prestige against strikes "as a first resort"; (2) the American Federation of Labor pulled off its convention with a

safe reelection of officers, which ended the need to "make a showing"; (3) the National Labor Board got headquarters staff and field men thoroughly organized for systematized arbitration work.

Preliminary settlements of the Weirton steel strike and the "captive" coal mine strike (*BW—Oct21'33*) helped to clear the air. Silk strikers are negotiating their difficulties through Senator Wagner's office with apparent success. Detroit's die- and tool-makers' strike has been fading, despite threats to turn it into an automobile production strike. The big shops that had 5,574 men out at the peak claim that, on present orders, they could add only 1,122 to the 2,824 now at work. The Labor Board dissappointed the strikers by declining to negotiate between their committee and Detroit, Pontiac, and Flint plants as a group, will be officially "correct," while working unofficially for a general settlement President Macauley of the National Automobile Chamber of Commerce declined the Labor Board's request to appear in Washington hearings on the strike. The N.A.C.C. is keeping out of it. Ford officials, watching their assembly plant strikes, promised to give the Labor Board "any reasonable information" without acknowledging its authority. Of course, the Board has no authority. The best news about strikes is that arbitration is getting somewhere without compulsion.

Back to Work

Reemployment figures give NRA a better break than most depression prophets can boast.

FOUR million persons have been added to the payroll of the nation since March. For 6 consecutive months, employment and payrolls have shown continuous improvement unmarred by the hesitation shown in productive activity and prices in recent weeks. To such records the Administration points with justifiable pride for proof of gains under NRA. The total falls short of the 6-million goal set for Labor Day, but two-thirds of a prophecy is more than most prognosticators of the last three sorry years have attained.

Most reliable data pertain to manufacturing and a small group of non-manufacturing industries. Here Secretary Perkins points out that September factory employment reached a level 34% above the March, 1933, low; payrolls, as much as 60%.

In non-manufacturing industries such as coal mining, wholesale and retail trade, canning, the usual seasonal influences coupled with code regulations increased the employment total.

The American Federation of Labor has accumulated the scattered measures of employment changes and fixed the March to September reemployment figure at 3.6 millions, to which the President apparently added the 300,000 forest workers for good measure. The number unemployed at the September rollcall still remains uncomfortably large. William Green puts it at slightly more than 10 millions compared with the 13.6 millions of March. The President would lop off about 3 millions as unemployables or occasional workers. Hence he reckons that a good 4 millions out of 10 millions of able-bodied and earnest workers, or 40%, have secured employment since Mar. 4. It is on the expanding earnings of this growing army of employed persons that the government counts to keep the wheels of industry moving.

Code Hearings

Construction industry moves to center of NRA's stage.

IMPORTANT codes will come through the NRA machine next week. Of first interest ranking are two of the codes of the construction industry which has been awaiting a decision on whether its codes may incorporate the step-up plan of raising wages and materials costs (*BW—Oct14'33*). It will have one when the President passes on these first codes. Meanwhile, it listens to strike threats by the unions who profess to scent skulduggery in this suggestion that increases in building costs be deferred to stimulate immediate construction.

Next week's hearings schedule covers 25 codes, largest budget for a single week to date. They include: Oct. 30—Vitrified clay sewer pipe, dental equipment, structural steel and iron fabricating, flat glass, slit fabric; Oct. 31—bolt, nut and rivet, sash cord, wall paper manufacturing, window glass, shoulder pad; Nov. 1—sample card manufacturing, flat glass distributing, garment pressing, fur dressing and fur dyeing; Nov. 2—special tool, die and machine shop, music publishing and distributing, alloy casting, fluted cup pan liner and lace paper, surgical dressing, paper bag, soft lime rock; Nov. 3—glassware, sanitary napkin and cleansing tissue.

Rail Fare Row

Eastern roads keep old passenger rates, watch results of Western cuts.

AFTER toying for weeks with the idea of following Western roads in a general cut of passenger rates, Eastern carriers have decided to stand pat on the old basic fares. Special rates will be given where advisable but the old 3.6¢ per mile straight fare and the Pullman surcharge will be preserved, for the time being. Reasons for adherence were (a) desire to wait till the Western roads tried out the reductions to establish a basis for discovering whether low fares would attract enough new riders to make up for the per-mile loss; (b) increased costs materials from NRA codes and impending expenditures for improved equipment. Principal opponent of the cuts was the New Haven, which gets from 35% to 28% of its gross from passengers. Further research will determine final action.

Business Week

FOR CLATTERLESS KITCHENS—Goodyear's new drainboard mats, sink racks, plate scrapers and such are made of rubber tile in several colors. They are tough, resilient enough to keep dishes quiet and unchipped.

Retail Code

NRA's new trade law for retail stores may push mark-up above the disputed 10%. It leaves the independent up against the mass buyer, as always.

THE President's approval of a code for the retail trade (excepting the sale of milk and its products, tobacco and food) has ended the painful and, in some quarters, costly suspense as to what it would contain, but leaves those who obstructed its progress toward approval little if anything to crow about. The clearly expressed provisions of the code as submitted, on such controversial points as minimum mark-up, advertising claims, compensation of certain types of employees, etc., have been removed but the compromise clauses now approved, particularly in connection with loss-leader selling (*BW—Sep2, 23, Oct21'33*), if enforced in accordance with the wording, will permit a higher minimum mark-up than that originally proposed.

Price Must Cover Labor

The use of loss leaders is still declared to be an unfair trade practice, but the retailers are permitted to sell merchandise without any profit to themselves. However, the code provides that "the selling price of articles to the consumer should include an allowance for actual wages of store labor, to be fixed and published from time to time by the Trade Authority." Around the ambiguity of that phrase the battle of the mark-up is expected to continue unabated.

It is pointed out that the phrase "actual wages of store labor" is susceptible to many flexible and widely varying interpretations. For instance, if the authority, charged with the responsibility of fixing the allowance that must be added, were to base its ruling on the U. S. Census of Distribution for 1930, it would find that the wage cost for all of the country's 1½ million retail stores averaged 14.28% of total sales. To take that percentage as covering the "wages of store labor" referred to in the code would be to decree a mark-up of 16.66% on cost. Should the same source of facts be used as the basis for decreeing a separate percentage for each of the different kinds of retail stores, the mark-up would range from approximately 13% for general merchandise stores to over 23% for jewelry stores, and well over 30% for plumbing shops and garages.

Store Labor Charges

Those originally opposed to any minimum mark-up may argue that the clause in the approved code is meant to cover only the actual store-labor involved. In that event, there would be required: first, a clear decision from the NRA authority as to where the labor, approved for a mark-up, actually begins and ends; second, an extensive and exhaustive study of functions and wages to determine fair percentages for each kind of business. Expert operators in the retail field point out that, even after such study, it would be found that the minimum of labor fairly chargeable under the code would in most cases exceed the minimum mark-up percentage originally proposed.

They cite the fact that in the report on 1932 operating results of department stores, published by Harvard University Graduate School of Business, the payroll of the buying and selling forces in that branch of retailing represented on the average approximately 12% of the net sales. Studies on the operation of chain store systems (exclusive of food chains), conducted by the same and other authorities, similarly indicate that store labor, outside of the administrative departments, averages over 10% on sales. Therefore, in that field also, "store labor" would, in many cases, put the mark-up above 10%. Thus the conclusion of mark-up proponents is, that only an official interpretation, wholly inconsistent with the wording of the code, will be able to keep that 99 and 46/100% of retailers who urged the minimum mark-up of 10% from enjoying the protection for which they have been fighting.

"Accuracy" Controls

Retail interests that under the leadership of the National Retail Dry Goods Association urged rulings against continuous under-selling claims and the substitution of unbranded or private brand merchandise for goods ordered by brand, also won a partial victory in that the code rules against the former if "inaccurately" stated, against the latter if attempted by disparagement of the product ordered.

Agricultural interests that so strenuously opposed the mark-up clause were instrumental in gaining exemption from the code by the President's special executive order for "local stores" doing business exclusively in communities of less than 2,500 inhabitants, not part of a larger trading area, also permission for bona fide farmers' associations to make "patronage refunds to their members." This exemption doesn't seem to apply to chain branches.

Wage and hour provisions of the approved code show considerable modification from the original draft. Group A stores, keeping open up to 56 hours weekly are permitted to work employees up to 40 hours a week but not more than 8 hours per day or 6 days a week. Group B stores, open 56 to 63 hours, must limit employees' time to 44 hours a week, 9 hours a day and 6 days. Group C stores, open over 63 hours, have a job limit of 48 hours weekly, 10 hours a day and 6 days a week. For certain classes of workers hours are not restricted, but in stores employing over 20 people only one out of 8 workers may come under the unrestricted classification. Employers must designate the group they belong in and are not allowed to change classification, excepting at the end of the calendar year.

$10 to $15 Minimum

Wages range from a minimum of $15 a week for 48 hours' work in stores located in cities of over 500,000 inhabitants, according to size of city and length of work week, down to a minimum of $10 in towns with less than 2,500 population, all minima being $1 lower in the Southern states.

In keeping with the Administration's evident policy to use the recovery legislation as the instrument for eliminating certain such social evils as child labor, sweatshops, home-work, etc., the retail code strikes at "company" stores, rules against payment for merchandise by "non-negotiable scrip, company checks or other evidence of wage payment." Its prohibitions on these points becomes effective Mar. 1, 1934. In the meantime, a special committee is to investigate the "economic and social implications of these provisions."

The machinery to be set up for the administration of the retail code will be the most elaborate of any so far created. It includes a Retail Trade Authority, controlled by the President, a National Retail Trade Council on which each major division of the retail trade will have from one to 3 representatives, a Regional Advisory Committee with representatives from each of the 12 Federal Reserve districts, a National Retail Trade Economic Board, and numerous supplementary local committees.

What Retailers Think

Early reaction to the code shows opinions sharply divided. The inevitable provisions on wages, hours, and other phases of operation find most of the important retail organizations within shooting distance of complete compliance, because of the time that has already elapsed since the trend of necessary adjustments could be recognized. Department stores and chain store organizations are considered too well fortified in their respective positions to fear any drastic changes in their operating results through code compliance. Few merchants in the small towns employ over 5 persons so that, under the executive order of exemption, they are in position to operate more or less as they see fit.

Sandwiched in between the big outfits and the small-town merchants are the hundreds of thousands of small retailers that account for a very substantial portion of the country's total retail sales volume.

Few of these keep extensive records. They know that they must comply with the code but they don't know what percentage of their expense is "store wages." They know that the chains know, and are wondering whether they will be compelled to operate on a substantially lower price level determined by the lower purchase price of goods bought by the chains and their generally lower wage level. The code permits the retailer to meet any competitive price, if that price is set in conformity with the code. They feel that to do this continuously would force many out of business.

Chiselers Will Find a Way

Retailers admit that chiselers and chronic price-cutters will still be able to find a way. Under Section 2 of Article VIII merchandise sold for bona fide clearance, damaged or as a discontinued line is not subject to the loss-limiting provisions of the code. Similarly perishable merchandise is exempt and that fact is making food manufacturers worry whether food products may become the loss-leader footballs of the department, drug, variety, and other non-food chain stores.

Manufacturers of electrical appliances who maintain their own retail branches are puzzled. Under the code of their industry they do not need to pay a minimum wage to outside salesmen but can operate them completely on a commission basis. Their independent distributors and the department stores and utility companies, which, under the retail code, will have to pay outside men the minimum wage, consider themselves at a disadvantage, may request changes in the electrical code that would make manufacturers such as Hoover Co., Maytag, Eureka, and others, doing a retail business, conform to the provisions of the retail code.

Druggists Divided

Druggists view their status as victims of Schedule "A" of the retail code with mingled feelings. Many are glad that the uncertainty is over and believe that a workable and beneficial set-up and more satisfactory operating conditions will result. Those committed against price-cutting, champions of the proposed "drug clause" that limited price-cutting to 21% off the suggested resale price, regret that no definite control of chiseling or minimum mark-up is provided. Supporters of the NIRA-born Drug Institute, Inc., propose to keep pegging away at the loss-limitation idea, are convinced that, for the good of the retail trade, such a provision should be included in all retail codes.

Wide World

EAGLE SCREAMERS—District officers of the Bureau of Foreign and Domestic Commerce have been appointed temporarily as Directors of Compliance for NRA. Here, outside the Los Angeles office, are eager complainants who have a kick to register. Washington is polishing up the enforcement machinery.

The Eagle's Beak

Drastic penalties for misuse of the Blue Eagle startle signers of PRA.

Echoes of the Executive Order of President Roosevelt prescribing a $500 fine or imprisonment for 6 months against those who fly the Blue Eagle in violation of PRA pledges or fail to live up to NRA codes are still reverberating. Bitter comments were heard in Washington, and throughout the country, the burden of which was that this form of "regimentation" was not just the most tactful attitude toward the American people.

The ruling was made obviously at the request of General Johnson, apparently in response to the accusations (more numerous than is generally realized) that PRA was weakening itself by not taking away some Blue Eagles, as had been promised for many weeks. The first signs of enforcement activity were the withdrawal of Blue Eagles from two stores in New Rochelle, N. Y., on Oct. 11. This was followed Oct. 12 by a mild enforcement statement by General Johnson. Certain signers of PRA had "voluntarily relinquished" their Blue Eagles. The General pointed out that they had pledged themselves to live up to requirements until Dec. 31.

Then, Oct. 14, came the Executive Order authorizing General Johnson to impose fine and imprisonment, and on Oct. 17, the order of the General that the Blue Eagle could be used by any one who has signed a PRA or joined formally in an approved code, but that any one who has failed to comply, after signing or accepting a code, and anyone who has improperly obtained the emblem, may be punished by the fine or the imprisonment provided in the NIRA for those who violate the provisions of the codes themselves.

This far-reaching order has started a new phase of the enforcement problem. The once "unenforceable" PRA, in the beginning a simple promise, becomes a contract enforceable in the criminal courts. Actually, no one in Washington, excepting possibly General Johnson, thinks that the agreements will ever be enforced that way.

Meanwhile, the vague provision that the Blue Eagle is to be used by those

who agree to comply with codes has brought a number of requests to NRA headquarters for some kind of certificate or emblem slightly different from the Blue Eagle, although embodying that much discussed bird. The automobile dealers, 45,000 in number, want to sign something, want a certificate they can frame, put in their windows. A design has been drawn up and submitted, with the Blue Eagle in one corner, their own emblem in another.

Meanwhile, the machinery of enforcement—or compliance, as it must be called—is in the making. The latest plan is the appointment, on the authority of Lieutenant Kilbourne Johnston, son of the General, of the 24 managers of the district offices of the Bureau of Foreign and Domestic Commerce as District Directors of Compliance. They are to act temporarily, while the code authorities get set up, and while the final plan of compliance is decided upon. For the present they will handle all complaints of unfair trade practices and of labor abuses, but will pass them on quickly, if they cannot conciliate them, to the NRA in Washington. The plan previously described (*BW—Oct. 21'33*) of dividing the work at Washington, if conciliation fails again, still stands, although the final plan is yet to be worked out and adopted.

Profits Under NRA

Third-quarter corporation earnings show increases over second quarter, though affected by NRA costs. Railroad earnings forge ahead of 1931.

THIRD-QUARTER earnings reports now available look better than at any time since 1931. The showing is not uniform but, on the whole, appears better than had been expected in view of so much complaint against NRA's alleged cost-boosting. Obviously, the improvement reflects a higher level of industrial activity than suspected.

Class I railroads reveal encouraging gains. Net earnings in August were $96 millions against $62.5 millions in August last year, an increase of 53.6%. The monthly curve of 1933 railroad earnings shows a steady ascent. In May, net earnings registered the first net gain of $3.5 millions; in June, there was another of $47.5 millions; in July, the net was further increased by $54 millions. Of course, the comparison with 1932 is with the most dismal months in railroad earning history for some years. This year's August net earnings of $96 millions compare with $95 millions in August, 1931, $139 millions in 1930, $190 millions in 1929.

The third-quarter statement of the Chrysler Corp. is typical of the corporation statements affected by NRA. Though dollar sales had increased to $87 millions as compared with $81 millions the second quarter, net profits at $7 millions were approximately $600,000 lower than in the second quarter because of higher operating costs attributed to NRA requirements. However, this statement conceals a $2-million addition to reserves compared with a similar charge of $1 million the second quarter. The net profits for the third quarter were the largest for a like period since 1928.

Other early figures show the trend. A.T.&T. reports a net income of $35 millions for the quarter ended with September, as against $34 millions during the second quarter, and $32 millions for the first quarter. For the 9 months of 1933 the net income is $101 millions as against $110.7 millions for the same 9 months of 1932. DuPont shows a net income of $11.9 millions for the third quarter as against $5.9 millions for the same quarter of 1932. The 9-month earnings are $26.1 millions this year against $19.7 millions last year.

Tax Prospects

Washington is earnestly looking for new income sources.

EXCEPT on liquor taxes, which are beginning to take definite form—$3 a gallon on domestic is still predicted—the tax situation remains nebulous. There is considerable sentiment for re-enacting as a sort of excess profits tax that tax on dividends which expires automatically with the advent of liquor taxes. And ever since Mr. Morgan testified to his recent freedom from income tax payments there has been a growing desire to do something about the capital gains and losses section of the income tax law. Of course, one hears a lot about barring capital losses and very little about also barring capital gains.

The fact is that the government needs all the money it can get and Congress will not be discouraged if it can find new income sources. The Treasury will help. For while the President talks about having balanced the budget by the expedient of a separate account for emergency appropriations, the interest reverts to the original ledger.

"Advertising or Tugwell"

A bitter battle develops over the Professor's bill to bridle and saddle the food, drug, and cosmetics' industries.

"I CONSIDER the Tugwell Bill for the revision of the Food and Drugs Act the greatest legislative crime in history."

Thus, feelingly, does an important manufacturer of packaged medicines express himself in the trade press. He indicates the emotional intensity to which opposition to the proposed measures has been stirred. The loudest protests, the most active counter-campaign plans emanate from the proprietary medicine industry. Milder objections are raised by the food and cosmetics manufacturers. The volume of the outcry gauges the expected effect on the different lines.

In the dying spasms of the last Congress, the Department of Agriculture's cocksure brain-truster, Prof. Rexford G. Tugwell, suddenly introduced his revamp of the 27-year-old Food and Drugs Act. It was trampled in the stampede of more urgent legislation. The professor picked up the bill, dusted it off, is determined to put it through the coming session. Already the air is full of attacking and defending superlatives, of sentimental tear gas.

The bill is designed to modernize food and drug supervision, to extend to advertising the provisions that now restrict labeling, to bring into the federal harness the hitherto footloose cosmetics industry, to provide a curb bit and reins by which the Secretary of Agriculture may exercise almost absolute discipline. This bill is frankly an advance on a new front in the struggle to bring business more firmly under government "guidance."

Among provisions of the bill highlighted by the proponents are:

Drugs that are mere palliatives must be labeled as such and not as cures. Concoctions containing narcotics must carry the warning that they may be habit-forming. Germicides must tell how much application is necessary to kill micro-organisms. There is a blow at slack filling of containers, and bottles that seem larger than they are, in a provision that prohibits forming and filling such containers so as to mislead purchasers. The department would establish regulations to prevent dangerous

amounts of poisons getting into the national stomach from insect sprays used on fruits and vegetables.

Large publishing, advertising, and broadcasting interests have been demanding a clean-up of shady advertising habits. But they become somewhat breathless after a look inside the mouth of the Tugwell bill. They wanted a measure with teeth in it, but nobody expected a crocodile.

Responsibility Narrowed

Apparently the crusading professor's strategy consisted of going the limit in the original draft so that he could later deal out concessions that would leave provisions where he wanted them to stand finally. At first publishers, broadcasters, advertising agencies were made equally responsible with advertisers for infractions. A revision narrows the threat of penalties to those who pay for the advertising. To charges that the wording is still ambiguous Professor Tugwell replies that all doubt will be removed before the bill is reintroduced.

The champion of the bill is fighting against powerful odds. Back of him is the Department of Agriculture and (it is claimed) the Administration. Recently this latter inference was strengthened when the ubiquitous Mrs. Roosevelt visited the Tugwell chamber of patent medicine horrors and registered due shudders thereat. The prize exhibit displays an alleged cure for diabetes, cost $12 per bottle. There is a column of testimonials from persons who declare the drug cured them of diabetes—and beside each testimonial a certificate attesting that this person died of diabetes. An exhibit at the Chicago Exposition shows how persons are injured by nostrums which falsely profess to be cures.

These be shrewd thrusts, as the resulting clamor of the medicine manufacturers proves. Such exhibits move from place to place. They are dramatized by Professor Tugwell in print, in movies, and wherever. Also by the personnel of the Food and Drug Administration. They charge up and down the land, addressing (clever Professor Tugwell!) gatherings of ladies who respond emotionally to the plea of protection for their homes against dangerous foods, drugs, and cosmetics. Women's clubs circulate petitions which are used to bombard Congress.

Drug Trade Fights Back

Various factors have made the drug trade the shock troops of the counter-attack. The food industries have been so busy working out codes that they have almost overlooked the final reckoning with the Tugwell bill. Trade publications are warning the industry that it must make itself heard at the approaching hearings. The cosmetics trade is quietest of all because important elements would welcome some policing of bad actors on the outer fringe.

Nonetheless, when Professor Tugwell comes back from the wars he will carry scars to prove there was a battle. He admits writing the bill large and loose so that it can be stretched to encompass unforeseen developments. His opponents cry "Dictator." They say that the bill takes practically all powers from the courts and centers them in the Secretary of Agriculture. The department can establish standards, issue regulations, force plant inspection, condemn shipment without judicial order. It would become "judge, jury and prosecutor." Future of the three industries would be vested in whatever bureaucrats may hereafter be politically appointed.

Called Ambiguous

Then, they charge, the bill's wording is so ambiguous as to be provocative of endless argument. Example: An advertisement would be deemed false "if in any particular it is untrue, or by ambiguity or inference creates a misleading impression." In a simpler age, Pontius Pilate asked, "What is truth?" and he has never been answered satisfactorily. Would the humorous Sanka ad showing how the jangled nerves of a cat were soothed with that drink be considered misleading? How can the Department of Agriculture establish hard-and-fast standards on medical questions which are violently debated by physicians?

Proprietary medicine manufacturers base their fight on the right of Americans to "self-medication," allege that doctors want to drive them out of business, say that many minor ailments can be safely treated without the costly calling of a practitioner. But their most effective weapon is a dramatized threat of advertising loss to publications and broadcasters. Professor Tugwell is harpooned with a suggestion from one of his own books that 90% of sales and advertising effort is social waste. One medicine man says the issue is "advertising or Prof. Tugwell."

Word From Back Home

Advertising expenditures of the industries affected are large enough to give any publisher long and thoughtful pause. But the argument is most effective with the small-town daily or weekly. Combined, these have immense political weight. In all country districts the newspaper owner is close to his congressman or senator, is a force in politics. Patent medicine ads are an important source of revenue. Country editors are overwhelmingly against the Tugwell proposals. Washington's statesmen listen, not to the Department of Agriculture but to votes and voices back home.

Here, probably, is the biggest hump the new Food and Drugs Bill will have to surmount. The professor must tug hard and well to get his measure over without serious alterations.

Acme

DOCTOR TUGWELL'S EXHIBIT A—The famous collection of horrible examples which the Assistant Secretary of Agriculture uses to demonstrate the need of tighter control over patent medicines. Lower left, the diabetes cure, testimonials on one side, death certificates of the writers on the other.

A lone man on sentry duty. Not another person in sight. But back of him is a whole army.

UNDER Otis Elevator Maintenance, a lone man may call to examine your elevators. But back of him are supervisors. And back of the supervisors are maintenance experts and planners. And back of the maintenance experts are the Otis engineers. A complete organization built from years of elevator experience.

Thus it is that Otis Maintenance is scientifically planned elevator care. It brings you elevator safety, freedom from shut-downs, maximum use of equipment, elevator economy. It brings you *modern* elevator up-keep.

The Otis Maintenance Service described here is available to you at a reasonable, flat yearly rate. Telephone the local office for details. Otis Elevator Company—offices in the principal cities of the world, or at 260 Eleventh Avenue, New York City.

NIRA SCOREBOARD

Industry codes that have been made effective through the President's signature

(Continued from *Business Week*, October 21, 1933)

Our No.	*Industry*	*Code Sponsors*	*Maximum Hours*	*Minimum Wages*	*Special Clauses on Pricing or Production*	*Other Important Features*
47	Boiler Manufacturing	American Boiler Mfrs. Assn.	40	34c. an hour, South; 40c. an hour elsewhere. Old and partially disabled at 80% of minima. Others $15 a week. Readjustment without decreases.	No sales below cost as determined by standard system of Machinery Builders Society. Prohibits contracts with penalty clause unless bonus is provided for at same rate as penalty.	No new apprentices to be employed except by permission of Administrator. Employee sub-piece workers prohibited. Articles V and VI of code, specifying wages and hours, to be posted in all shops. Provides for periodical reports, standard contract forms, instalment terms, guarantees, etc.
48	Automatic Sprinkler	National Automatic Sprinkler Assn.	40	Manufacturing labor, 40c. an hour; construction labor, 37½c. an hour South, 43¾c. North. Common labor 80% of minimum. Clerical and office, excepting office boys, $14 to $15. Equitable readjustment for others.	Bars sales below cost, defined as cost of materials plus overhead based on approved standard accounting system.	Bars sales to other than approved and registered contractors who agree in writing "to comply with and be bound by all the provisions of this code." Violators of code to be dropped from list. Prohibits sales of new equipment to owners or lessees for self-installation, excepting for replacement. Recognizes existing licenses. Provides for standard forms of contracts and licensing agreements. Bars "bid peddling."
49	Compressed Air	Compressed Air Institute	40	Production labor 40c. an hour, unless lower on July 15, 1929, but not below 35c. an hour. $15 a week for others, excepting office boys or girls.	Bars sales below cost with certain exceptions. Provides for cost determination by approved uniform and standard accounting system. Provides for the "open price" system. Exempts export sales from price provisions.	Establishes supervisory agency with 4 of its 5 industry members elected by vote or proxy, "weighted on basis of one vote for each $50,000 of sales of products of the industry, made in 1932." Supervisory agency has power, under stipulated conditions, "to fix a fair price for such product." Prohibits sale to any distributor "who does not agree to resell only in accordance with the code."
50	Handkerchief	Handkerchief Industry Assn., Inc.	(Prohibits overtime except by permission.)	$12 a week South; $13 a week elsewhere. Bars reductions and provides for maintaining differences in wages as of July 1, 1933. Bars home work after Jan. 1, 1934, except when all hand-made product.	Bars sales below cost as determined by uniform cost accounting system. Bars consignment or memorandum sales, stock protections, price guarantees, extra dating. Options limited to 30 days. Limits machine operation to 40 hours.	Exempts manufacturers from minimum wage, learner and home-work provisions on products selling for $3.50 per dozen or more, provided that handkerchiefs partially or wholly made outside U. S. A. are marked as to origin. Provides for setting up design, pattern etc. registration service. Prohibits direct or indirect use of prison labor. Establishes a code authority.
51	Heat Exchange	Heat Exchange Institute	40	Production labor 40c. an hour, unless lower on July 15, 1929, but not below 35c. an hour. $15 a week for others excepting office boys or girls.	Permits the "open price" system. Bars sales below cost. Provides for uniform cost accounting. Under stipulated conditions, supervisory agency may "fix a fair price." Prohibits sale to distributors who do not agree to resale provisions.	Provides for reports on plant capacity, production, dollar and unit sales, orders, inventory, wages, hours, etc. Sets up supervisory agency, with 4 of its 5 industry members elected by vote or proxy, "weighted on basis of one vote for each $50,000 of sales of products of the industry made in 1932."
52	Mutual Savings Banks	National Assn. of Mutual Savings Banks	40	$15 a week in cities of over 500,000 population; $14.50 in cities 250,000 to 500,000; $14 in cities 2,500 to 250,000. In towns under 2,500 a 20% increase but not necessarily to more than $12 a week. Wage reductions prohibited.	None.	Provides for a Code Committee and preparation of a supplementary code of fair practice provisions.
53	Pump Manufacturing	Hydraulic Institute	40	Production labor 40c. an hour, unless lower on July 15, 1929; but not less than 35c. an hour. $15 a week for others, excepting office boys and girls.	Bars sales below cost with exceptions. Permits "open price" system. Under stipulated conditions supervisory agency may "fix a fair price." Exempts export sales.	Provides for uniform earning statements and balance sheets, reports on capacity, production, unit and dollar sales, inventories, orders, wages, hours. Sets up supervisory agency, with 4 of its 5 industry members elected by vote or proxy "weighted on the basis of one vote for each $50,000 of sales of products of the industry, made in 1932."
54	Umbrella	National Assn. of Umbrella Manufacturers, Inc.	40	Skilled workers, 35c. to 65c. an hour, within 50 miles of Times Square, N. Y. C.; elsewhere, 2½c. an hour less. Minimum for others in Metropolitan New York $14 a week, $13 elsewhere. Prohibits reclassification or re-rating, or reductions of pay. Equitable readjustment.	Limits productive activity to one shift daily. Bars sales at below cost as determined by uniform system. Bars consignment. Establishes a uniform system of discounts.	Bars contract labor performed away from regular plant. Establishes "Planning and Fair Practice Agency." Sale of "seconds" or obsolete merchandise limited to 3% of total production. Prohibits selling in assorted lots. Provides for equitable adjustment of contracts.

THE RIDDLE OF RECOVERY

THE Code-Makers bring home to American Industry a new definition of value—the value of a man's work in its relation to a manufactured product. This is a development that calls for a complete realignment of factory costs and renders old operating ratios obsolete.

On the one hand—higher wages, shorter hours and rising commodity prices. And on the other, the grim necessity of staying in business, of earning a fair return on invested capital, of rehabilitation, perhaps, to meet the competition of low-cost plants. *To reconcile such factors as these—is the riddle of recovery!*

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Here at Goodrich we believe in a brand of creative salesmanship that is based on "application engineering" of the highest order; that is inspired by a real understanding of the customer's need and a thorough-going capacity to interpret that need in terms of cost-reducing industrial merchandise. Goodrich summons all of its resources to this cause, in the firm belief that those who champion it will find the answer to *their* riddle of recovery. . . The B. F. Goodrich Rubber Company, Mechanical Rubber Goods Division, Akron, Ohio.

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Wide Reading

WHAT'S AHEAD OF MANAGEMENT UNDER THE CODES? R. H. Rositzke. *Factory Management and Maintenance*, October. Study, based on contracts with a number of textile executives, which gives a clue to the real tasks ahead of management, points out and develops 5 broad avenues of approach.

BRINGING THE WORLD TOGETHER ON WHEAT. Frederick E. Murphy. *Review of Reviews*, October. Story of the plan to bring wheat under world control.

DEVELOPING A NEW PRODUCT—A METHOD OF PROCEDURE. H. W. Hoover. *Executives Service Bulletin*, September. Detailed outline of the many and varied contacts an engineering department should make in order to develop a new product.

EMBATTLED VETERANS. Roger Burlingame. *Atlantic*, October. Legion lobbying has brought it to grief. Later articles will describe the fight on the Roosevelt economy bill and the probable future of veteran legislation.

A FIVE-BILLION-DOLLAR CUSTOMER. David Ostrinsky. *Forum*, September. Very interesting table of possible exports to Russia (totaling $5 billions in 4 years), and suggested imports which will help Russia to pay.

FASCIST ECONOMIC POLICY AND THE NRA. William G. Welk. *Foreign Affairs*, October. Despite the fundamental differences in underlying political philosophy, the social and economic experiment attempted in Italy presents certain interesting parallels to that now being tried in the U. S. under the NRA. Cooperation through authority . . . perhaps expresses the essence of the new order toward which western capitalism seems gradually to be moving.

COSIMO DI SELFRIDGE. *Fortune*, September. Story of the American who became a London department store baron.

THE HOTEL DÉBÂCLE. Barrow Lyons. *Nation*, Oct. 4. Virtually two-thirds of New York City's 329 hotels are bankrupt. Story of bonds gone sour.

REPORTS—SURVEYS

OUTLINE OF THE "NEW DEAL" LEGISLATION OF 1933. Howard S. Piquet. McGraw-Hill, 90 pp, 60¢. Excellent outline of the recovery program including the Emergency Farm Relief and Inflation Act, Banking and Securities Act, Federal Relief Act, Home Owners' Loan and Farm Credit Acts, and the Tennessee Valley Authority Act.

EMERGENCY EMPLOYMENT. Mary Elizabeth Johnson, Syracuse, N. Y. 99 pp., privately printed. Special study of an unemployment relief program in Onondaga county, New York, put on a thoroughly economic, as well as wholesomely social, basis.

THE BEHAVIOR OF CONSUMPTION IN BUSINESS DEPRESSION. Arthur R. Tebbutt. Harvard University, 21 pp., $1. On too slender evidence, the author concludes that the consumption of goods during depression years has shown but an insignificant decline from 1928 and 1929. Hence, it is argued, the Administration's "Buy Now" campaign should put emphasis on producer goods rather than consumer goods.

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Automobile Outlets

Depression took the dealers for a ride. But motor makers know sales are proportionate to outlets, get ready to go back to the boom-strength basis.

In spite of the current uncertainties over labor and the cost of materials, automobile makers look to 1934 as the year of the big comeback. They interpret this year's belated baby boom as merely the overture to next year's sales show. They believe the hard times are over—well, practically over—and they are beginning to strengthen their dealer organizations in preparation for the big drive. For they know well that retail sales are directly proportionate to dealerships and the number of salesmen on the make.

The thin red-ink line of dealers shows the effect of the economic war. At the start of 1931, there were 46,197 retail automobile dealers sitting tight in their plate glass trenches. By the first of 1932, there were 42,045 of them; and by January, 1933, the known dead numbered 8,105 and the walking wounded have never been counted. Nor are there any casualty lists for the big bank-closing when several thousand succumbed. One company alone, with 7,000 dealers, lost 1,200 in March.

A Further Check-Up

Even these death lists do not tell the whole story, for included in the total of survivors are those gallant volunteers who went into the business for the first time, or reenlisted in recent years.

And still the picture of the present situation is not straight. Dealers, like politicians, love a winner, hasten to climb abroad a leader's bandwagon. Chevrolet in 1926 had 7,738 dealers; 2 years later, 8,987; now, about 10,000. Ford went from 9,376 in 1926 (Model T died then) to 8,280 in 1932. Chrysler now has some 7,000 dealers; Buick-Olds-Pontiac accounted for 5,799; add 550 for Cadillac, and Ford, General Motors and Chrysler total up 31,629 out of the present 38,092 dealerships. Which means that all other makers combined have the magnificent total of 6,500 dealers through which to gain distribution. While the big companies have held their own, even gained, the little fellows have lost dealers steadily.

General Motors, biggest of the big, has decided that the war is over. Its Buick-Olds-Pontiac division is being demobilized. BOP was created (*BW—Feb22'33*) to save the dealers for GM. It strengthened the front line of retailing with dual dealerships, a single factory sales force, and unified control. It sold 125,067 cars in the first 8 months of 1933, compared with 99,923 in the same period of 1932.

But GM generals, looking ahead to 1934, are not satisfied with a mere 25% gain. They admit BOP served its purpose, and well, but they also know that comparable lines in Chrysler made gains of 40%. So BOP is being thrown into reverse. To the individual factories will be returned the sales autonomy they surrendered to BOP. Dealers who have been working with the factory through BOP will go back to dealing direct.

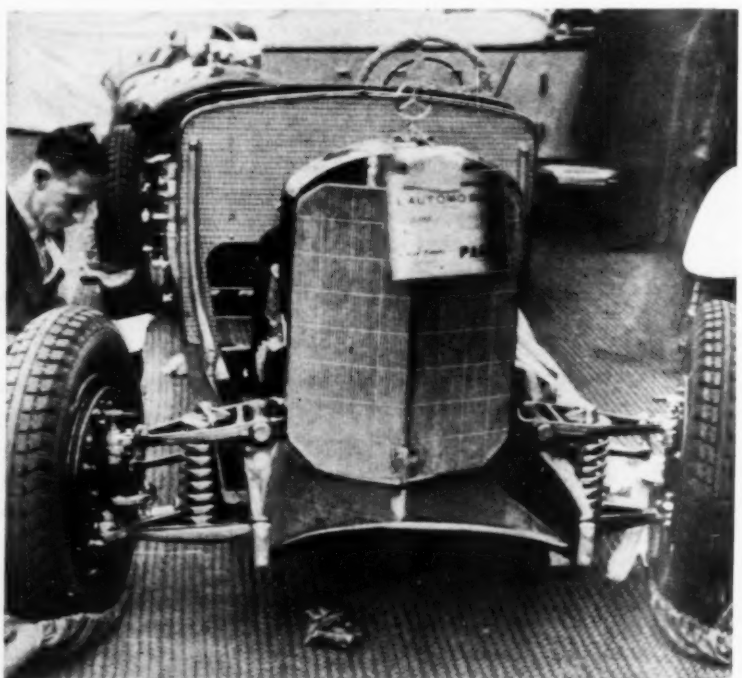
According to A. P. Sloan, Jr., "Separate division identity and executive responsibilities incident to same have, from the very beginning of the corporation's existence, been a fundamental principle in its administrative policy. On account of the sharp contraction of volume incident to the period of depression it became absolutely essential to effect certain consolidations in order to make possible essential economies in operation. It is believed that the improved outlook justifies reinstating the operating plan in accordance with the corporation's established policy."

According to Executive Vice-President Knudsen, new second in command, present consolidations in retail outlets will not be disturbed. Dual dealerships for Buick-Pontiac, Oldsmobile-Cadillac, and Chevrolet-Cadillac will be continued. New dealers will be added where coverage seems inadequate. Whether they'll get multiple dealerships is an unanswered question.

H. J. Klinger is general manager of Pontiac, heretofore under direct supervision of Knudsen as general manager of Chevrolet. Harlow H. Curtice becomes general manager of Buick, C. L. McCuen of Olds. Once again on their own, these divisions will be back in the old friendly competition within GM. This internal competition seems desirable, salesmen with more than one line to sell are likely to push one line because of larger commissions or higher trade-in possibilities, to the detriment of the companion car.

Nobody Is Asleep

Meanwhile, other companies are not idle. Studebaker has worked into the low-medium price class to give dealers a wider line to handle. Nash is going to do the same thing. Reo is using its light truck as an inducement to sign up, likewise has the self-shifter. Perhaps the fastest growing franchise of the year has been Dodge. In the first 8 months of this year, 65,269 Dodges were sold as against 22,150 in the same months of last year. And of course, Dodge dealers can sell the Plymouth, which has been gaining by leaps and bounds. Another company would like to step out and gather in more dealers but is ham-



SEE THOSE SPRINGS—Coil springs and individual wheel suspension, shown here on a new Mercedes, are an old story to Europeans. But American manufacturers have just taken them up, many new models will have them.

pered by old contracts with distributors which tie up the territories tight.

The desirability of the distributor in automobile selling has not been settled by the depression. Many took no active part beyond the usual cut of the dealers' discounts, were unable or unwilling to carry the proper stock of new cars and parts. Many manufacturers, particularly in the juicy territories, have had to set up their own factory branches or finance dealers. One has 5 separate companies organized to run retail branches in 5 big cities. General Motors has none, except for Cadillac; dealers buy parts direct from GM district warehouses. Most factories want to get out of distribution as quickly as possible but don't see how they can.

All motor makers are now concerned about dealer replacements; the question is where any new dealers are to come from. Many of those killed in action went into the independent garage and repair business, will be ready to resume a dealership when things pick up. Other independents can be induced to take a franchise, and there are sales managers of dealers who will go into business for themselves. And, of course, there is that favorite sport of the manufacturers, always denied, of raiding other makers' dealer organizations. Finally, believe it or not, there are those few far-sighted big-time dealers who saw the war coming and went into hiding for the duration. Now, having all their arms and legs, they are ready to take their pick of the attractive offers dangled before them.

New Cars Delayed

Motor makers are ready with their streamline "pants" and "skirts" but are hesitant about costs, labor, and prices.

By this time, in any normal year (if the downs and ups of recent years may be called normal) all major motor car makers should be ready to go with their new models. By this time, they should have completed their plans for the switchover, figured the cost of the last rivet and inch of weld, and arrived within the proverbial dollar of the ultimate sales price.

This year finds automobile manufacturers in a tough spot, and they are excellent judges of tough spots. Regardless of what they say in public, the tool and die makers' strike has slowed up preparation for new models. The quick decision to use coil springs has complicated the changeover in design. As a consequence, the automobile show space drawing scheduled for Oct. 5 in New York did not take place until weeks later, in Detroit, and then it was uncertain whether the New York show could be staged right after New Year's as

NO IDLE DREAM—Briggs' "dream car," exhibited at Ford's big Detroit show, is designed for an engine in the rear, with narrower back seat, wider front seat. Headlights and bumper are faired into the fenders. The projection on top is a periscope for the rear view mirror. Inside, seats are tubular-framed, open underneath. While this job is purely experimental, production models may catch up with it sooner than even automobile men expect.

usual. A poll of exhibitors showed that enough companies would have cars ready, although some declared hand-made models would be necessary.

Most important is the matter of price. With competition what it is, no maker dares set a price much higher than present models. Yet materials have gone up, may keep on going up, labor costs are increased. Rough estimates add $15 for materials and $15 to $20 for labor as results of codes already visible. This for small cars, with larger cars in proportion. Biggest boost will be in the middle-price class, with an increase of $100 just an average. In big cars, Packard has already set an estimate by increasing prices $200.

Awaiting the Future

Government monetary policy, the degree of inflation, is also a large question. Most motor makers are inclined to hang back even a little longer to see what the future will bring forth. Nobody wants to raise prices amply to cover undoubted increase in costs and risk sales prospects and competitive position. On the other hand, nobody wants to set a price that would have to be raised at the height of the sales season next spring. So watchful waiting is the policy. Labor conditions, never mentioned, are yet a matter of concern. Trouble as production starts would be serious.

In general, the outlines of the new cars are known. Almost all will have some kind of controlled ventilation, introduced by Fisher last year and already on many other cars. Streamlining is moving faster than even motor makers suspected. Oldsmobile's record proves the public can take it. New models will carry it even further with deeper "skirts" on the front fenders and "airplane pants" on the rear wheels. If gasoline prices and taxes continue to climb, it may be a matter of economics as well as speed and appearance. There will be more emphasis on inside room. Ford's V-8 sales talk includes that point. Other makers have considered it in their new designs, so much so that upper-middle-price-class cars are going to be hard put for arguments.

Biggest Mechanical Change

Biggest change mechanically, already reported, is independent wheel suspension and elimination of the front axle. Long used abroad, it is coming in over here with a rush. All General Motors cars are supposed to have it, and the Chrysler and Dodge cars in that group. Other makers are considering it. Auburn, among them, is reputed to be readying a come-back car for 1934 to do what the 1931 model did.

In the best industry tradition, the new Chevrolet will be longer and heavier. Ford, always problematical, is presumably ready with a longer V-8 with smoother lines, redesigned radiator, and ventilation. The small V-8 is still in the offing. When and if it ever arrives, it is supposed to be quite different in appearance from the larger V-8.

Pontiac changes will be minor; it was radically revised last year. Chrysler is expected to do something about DeSoto, however, which it is felt is too close in price to the small and very successful Dodge. Plymouth is scheduled for a new body.

Studebaker and Nash are already out; both are conservatives, yet both reflect the trend to increased streamlining. Nash is offering 3 lines instead of the usual 5, a Big 6 on a 116-in. wheelbase up $40 from last year; the Advanced 8 on a 121-in. wheelbase, *down* $210 to $255 in price; the Ambassador 8 on 133-in. and 142-in. wheelbases, down $230 to $280 on the sedan, same as last year in the other lines. Price revisions reflect the ambition to Nash for broader spread rather than any industry policy.

All new Nash models are bigger and more luxurious—"snappier" is the dealer's word. All have the twin ignition confined to the 8's last year; all have automatic starting on depressing the clutch pedal, and draftless ventilation.

New Sales Deal

General Foods revamps its selling strategy for the recovery.

RECENT announcements by General Foods Corp., of significant changes in the executive set-up of important subsidiaries, completion of divisional and district sales units, unique expansion of advertising activities, are collectively interpreted as prima facie evidence that the company sees a definite and substantial upswing of business ahead, proposes to take the fullest possible advantage of it.

Frosted Foods Co., Inc. producing frosted fish, meats, vegetables, fruits under the Birdseye quick-freezing process patents, had been "sawing wood" during the last 3 years, trying to find the particular market group which promises the best returns for sales effort. Wholesale distribution to hotels, steamship lines, railroads, has grown steadily, now covers 35 states. Retail sales are now made through over 500 retail stores and are being accelerated with the aid of a new low-priced display and storage unit, costing as little as $300, compared with the old $1,500 unit, which the retailer can buy out of earnings. William H. Raye, former president of Frosted Foods, has become chairman of the board, will devote much of his time to increasing the popularity of quick-frozen foods by persuading other manufacturers to enter the field under license. James F. Brownlee, new president, is getting ready to expand sales operations in present and hitherto unexplored fields.

Grape-Nuts sales are to be pushed into higher levels under Frank Smith, formerly assistant to Verne E. Burnett, vice-president in charge of public relations. The first step in that direction is a tie-up with Admiral Byrd's second expedition to the South Pole for a series of radio broadcasts from the headquarters of the expedition at Little America and from the Byrd plane flying over the polar region.

Other General Foods products are scheduled for special promotion, with each campaign timed to take advantage of seasonal trends and consumer buying momentum.

The new set-up of the sales organization, announced at the recent Chicago

sales convention, is expected to improve performance, provide speedier and more efficient service for retail and wholesale customers. Under the divisional sales offices at Chicago, New York, and San Francisco, 27 district sales offices have been created. These, in turn, control 150-odd sub-district headquarters in as many different key cities. Each man in charge of a sub-district has control of all the salesmen in the territory, is enabled to keep in intimate contact with all buyers, can handle all current problems, complaints, and adjustments, without having to refer to company headquarters. Tryouts of this new plan during 1932 produced substantial sales increases while sales in general were going down, convinced officials that it should be put in operation throughout the country.

The belief of General Foods, that specialization and extreme flexibility are essential if all of its products are to gain a satisfactory slice of sales volume, has also found expression in its policy on advertising. No single agency handles all G.F. advertising. Product accounts are split up between Young & Rubicam, Inc., and Benton & Bowles, Inc., Erwin, Wasey & Co., Ltd., handles export advertising in England; Baker Advertising Agency takes care of Canada. National Export Advertising Service covers all other foreign advertising excepting in Norway and Sweden.

Government in Business

Congressional leaders now talk of censoring investments, and curbing outrageous salaries.

WASHINGTON—A sweeping governmental invasion of private business—or what certainly has been regarded as private business until now—is virtually certain as a result of the Senate Committee investigation of Wall Street. Far more drastic regulation of stock and commodity exchanges, far more rigid supervision over issues of new securities and loans for enlargements of existing business operations are in prospect.

Disclosures made before the committee in the Morgan, Dillon Read, National City, and Chase National inquisitions will be used to stir Congress into action. Not much urging is needed. There is little doubt as to Administration approval. Further control of business by government, as preached in many magazine articles and books by individual members of the Brain Trust, is en route.

Business men are getting questionnaires just now asking about salaries and bonuses. This is to be ammunition for a drive against such abuses as corporation heads paying themselves great gobs of stockholders' money.

The Securities Act is likely to be made more drastic. The liability features are likely to stick. Congress is planning to go further. There is to be a real effort to protect the "sucker" not only from actual fraud, planned in advance, but even from bad judgment.

Some of the Administration leaders on Capitol Hill are talking of the government going into the question of whether the purpose for which new securities are planned is economically sound.

They point out that it has been years now since anyone has been permitted to build a railroad unless the Interstate Commerce Commission could be thoroughly convinced that public need justified the additional facilities. This, they assert, has had several beneficial results. It has protected existing lines, and it has protected investors both in the old lines and the proposed new ones.

No one now makes serious complaint about this policy. Why not, Congressmen ask, apply the same beneficial policy to other lines of industry? True, there is the constitutional point that the railroads are interstate carriers, and are public utilities. But who, they demand, would have thought NRA codes constitutional two years ago? Let the Department of Justice worry about finding a constitutional basis.

The thought is to apply this theory of preventing wasteful duplication—except as to new processes, of course—to every line of industry except one. That is government-owned public utilities. No matter how much power production capacity may exist in private hands, no one has suggested that the government forbid either itself, a state, or a municipality from constructing a competing plant.

Foreign Bonds

Rescue party for frozen investors in foreign securities gets government blessing, but it can't carry the flag.

THE federal government has undertaken official stewardship of the organization of the American Bond Holders' Protective Committee, which it is hoped will be impressive enough and inspire sufficient confidence that it may come to represent practically all of the holders of some $2 billions of defaulted foreign

securities now held by American investors. At the same time the Administration was careful to disavow any official responsibility.

This would seem to indicate that the Corporation of Foreign Security Holders authorized as a government entity by a rider to the Securities Act of 1933 had been buried without benefit of prayer.

The White House issued the announcement of the organization of the plan. The first meeting of the organizers was held in the offices of the Federal Reserve Board. Official color was furnished by the attendance of Secretary Hull; Charles H. March, chairman of the Federal Trade Commission; Dean Acheson, Undersecretary of the Treasury; and Dr. Herbert Feis, Economic Advisor to the State Department.

Just "Friendly Aid"

However, these officials made it clear that they were present only for the purpose of giving "such friendly aid as may be proper under the circumstances." The group, which will actually organize and function as a committee, consists of a considerable number of important personages, none of whom are said to have had any connection with the sale or distribution of foreign securities. They include corporation and banking attorneys, former governors, deans and professors of universities, former cabinet members and ambassadors, and 2 bankers.

The new group will operate much as does the British Council of Foreign Bond Holders, which enjoys every possible support the British government can give without disturbance to official foreign relations. The experience of the British Council would suggest that the new committee will not perform any miracles in inducing foreign debtors to reorganize their budgets and pay service on their debts. It today represents the holders of approximately £360 millions of defaulted foreign bonds, including the repudiated debts of the Confederate States.

Diplomatic Complications

The Corporation of Foreign Security Holders, which was to have been financed by the Reconstruction Finance Corp. and administrated by a board of directors appointed by the Federal Trade Commission, was abandoned as a dangerous instrument in view of the fact that it would have been an entity of the government itself. A large part of the $2 billions of defaulted foreign bonds in this country were emitted by South and Central American countries. The Pan-American Conference is to convene in Montevideo Dec. 3. The State Department feared for the outcome of the conference if a governmental organization were then agitating the resumption of service on South American debts.

The committee now organizing can and no doubt will be of tangible value to American owners of foreign securities. The pressure it would be able to bring to bear upon foreign debtors should hasten adjustments and produce a maximum of service on defaulted issues. The indirect effect of such an organization will be to restrain, if not to prevent, the underwriting and distribution of securities of the sort which constitutes a large part of those in default.

Batá in America

Baltimore contractors report they have submitted plans for a factory for Czechoslovakian company.

GREATEST producer of shoes is Batá in Czechoslovakia. Daily production in the home factories runs to 230,000 pairs.

Tariff barriers have forced the company to erect plants abroad. England witnessed the opening of the ninth Batá foreign plant only a few months ago. India has a large factory where shoes are being made for distribution on the markets of the Far East.

Rumors are current in Baltimore that Batá interests have selected a site near that city for the production of an American plant. Baltimore contractors report that they have submitted plans for the construction of a factory on 800 acres along the Bush River. Details are not revealed, and the Batá office in New York does not yet confirm the report.

Batá shoes have sold in the United States for some time. Sandals, popularized by the craze for sun bathing, have been in special demand. A factory within the United States will make it possible for the company to supply its American demand no matter what tariff policies may develop under the NRA program.

Dollars Are Blocked

Anglo-Argentine trade treaty freezes dollar unless Americans accept bond payment and increase imports.

AMERICAN exporters with from $25 millions to $35 millions of funds blocked in the Argentine prior to May 1, 1933, are smarting under a new decree from Buenos Aires prohibiting the withdrawal of these funds from the country.

Particular sting comes from the fact that the British seemed to have negotiated the deal entirely for their own benefit. According to the Anglo-Argentine trade agreement signed last spring, the Argentine government has agreed to set aside about 12 million pesos from this year's trade balance with Britain for the liquidation of British balances in Argentina. For this favor, and for the preference granted on the Argentine market, the British agreed to accept in payment for the balance of the blocked sterling accounts new 4%, 20-year government-guaranteed bonds, the proceeds of which remained in Britain to liquidate debts. The bonds, offered recently on the British market, were oversold by nearly £4 millions. Original plan was to absorb only £10 millions.

Creditors in other countries have the privilege of doing the same thing. Some are already planning to do so. Americans are reluctant for 2 reasons to go ahead with a similar plan: Our trade balance with the Argentine has long been unfavorable to Buenos Aires and there is little evidence now that we are going to be able to work out a plan to take a larger volume of Argentine exports because they compete with American products; and it is not likely that an Argentine bond issue, even for this special purpose, would be readily absorbed here.

Washington is carrying on negotiations with a number of Latin American countries to improve trade. With Argentina, the problem has been most difficult because in Buenos Aires there seems to be a natural desire to cooperate with London, little effort to improve trade relations with Washington.

Sugar Sugared

Cane and beet growers will get loans, if not quotas.

PENDING the working out of a long time sugar policy, Secretary Wallace has announced his willingness to advance federal funds to beet and cane growers in continental United States, and possibly in Hawaii and Puerto Rico, along the lines of the loan to cotton producers. It is estimated that $70 millions will be required for this purpose. The advance will be sufficient to insure a price that will not be greatly below parity. Under this plan no repayment of the money advanced below the base price of a loan will be expected.

While the domestic producers are strongly of the opinion that the quota system is the best plan for meeting the sugar situation, they welcome the loan as an emergency measure, as it is apparent that the problems raised in the discussion of the sugar stabilization agreement cannot be solved promptly.

Sugar producers are much concerned by the prominent part to be played in the handling of sugar affairs for the AAA by Joshua Bernhardt, author of the report on which the Tariff Commission, in 1925, recommended a reduction of the sugar duty to $1.23 per 100 lb. They blame him for the failure of the stabilization agreement and with advancing the proposal that the situation be met by a processing tax or by the payment of bounties.

Business Abroad

Roosevelt's new gold policy focus of all attention. Soviet recognition by U. S. welcomed diplomatically, resented commercially. French government falls on budget tangle; franc holds. Hitler maintains equality demands at Geneva. England scores in the Argentine.

Europe

EUROPEAN NEWS BUREAU (*Cable*)—European executives confined their attention to just 3 developments this week: the invitation from Washington to the Soviet government to send a representative to discuss possibilities for renewal of diplomatic and trade relations; the announcement by President Roosevelt that the United States would set the price for gold, and at a figure above the prevailing world price; and the fall of the French government with possible reactions on the French franc.

Diplomatically, almost everyone in Europe was pleased with the Roosevelt move to restore normal relations with the Soviets. It is generally considered that Berlin will be profoundly influenced, will be less abrupt in dealing with Moscow and will perhaps even make some efforts to patch up present wounded feelings. Certainly, the situation in the Far East—which most of Europe considered as tense as the German-created spasm on the Continent a week ago—has been altered by the prospect of closer cooperation by Moscow and Washington in all future dealings with Tokyo. And finally, Russia—which is taking an increasing part in the politics of the Continent and in councils with European nations—will gain in prestige if official relations with the United States are restored because it is expected that the 2 nations will act in unison in many council chambers.

Commercially, the move for recognition by Washington is less welcome. Germany will suffer most. Soviet orders for German products have dropped, since Hitler came into power and pushed his anti-Communist campaign, to the point where only the absolutely essential manufactures are bought through Berlin, this despite the fact that 2 years ago the bulk of Russia's foreign orders were placed in the Reich. Britain has failed to reach a new trade agreement with the Soviets following the rupture in relations at the time British engineers were accused of sabotage and tried in Soviet courts. France has recently renewed cordial relations with Moscow but all 3 of these countries know that the United States can secure the bulk of the Soviet business if comparable credits are offered. This means, most executives contend, that credits must run for at least 4 years, possibly 10, and that very little cash must be expected in payment in the next 2 years unless a large market for Soviet products is found in the United States. Europe expects to lose a lot of Soviet business.

Roosevelt Plan Watched

After the first flurry of excitement, the Roosevelt gold pronouncement was accepted with more calm. Dollars sagged until the first official Treasury price ruling came from Washington. Exchanges tended to rise on the expectation that successive statements from Washington will increase rapidly the number of dollars paid for gold.

The gold problem is a cause for much concern because so few details are known. The British expect that Roosevelt plans to operate the gold purchase plan as a sort of equalization scheme, using instead of the foreign exchanges which Britain has been in the habit of using to steady the pound, the gold which the Treasury will purchase. France cannot determine the course of the franc until it is known how extensively the United States will purchase gold from abroad, if at all. Certainly the franc was strong during the first of the week. Germany was non committal. In all countries, however, it was realized that the gold bloc of currencies is pushed further to the wall, that, should they abandon the gold standard, it would not be long until all nations would be in more of a mood to discuss monetary rehabilitation.

Paris Awaits New Government

The fall of the French government was expected. The budget deficit has reached the point where the problem must be met by economies to bring a return to equilibrium, or by a mild inflation which might accomplish the same result. The economies have already been rejected, with the result that the Daladier government is out. There is a small group in France which favors inflation, but there is a much larger group which remembers the last 80% devalution of the franc less than 10 years ago. Most observers expect a series of governments which will attempt to solve the problem in various ways. Ultimately, only a national emergency coalition is expected to be able to handle the situation with sufficient determination to meet the crisis. General European reaction to the Roosevelt

Wide World

HE'S OUT—Premier Daladier (right) failed to hold the support of the French Chamber of Deputies when he asked for higher taxes and salary cuts for civil service employees in order to balance the French budget. During the final session before he and his cabinet resigned, indignant Paris taxpayers shouted their protests in the streets around the Chamber.

gold policy, with resulting effects on the stability of the franc, may determine how soon the country will resort to this emergency.

Markets were generally steady, with commodity prices rising on the stimulus of the Roosevelt policy. French bonds recovered from the first shock of the Roosevelt announcement, are expected to hold their strength until another cabinet can tackle the budget.

Great Britain

Industrial gains continue; large orders from Ireland, Finland, and China. Rubber restriction expected. Argentine loan a success.

LONDON (*Cable*)—Neither the threat of a "rubber" dollar in the United States nor a government crisis in France has been able to undermine Britain's expanding optimism. President Roosevelt's new plans for manipulating the dollar through regulation of the price of gold baffle London, but it is assumed that the new machinery is modeled after the Exchange Equalization Fund which Britain has attempted to operate until recently, except that gold is substituted for foreign exchange in the transactions.

Developments over the end of the week have caused "bad" money again to flow from Paris and New York to London but it is not causing uneasiness now for banks are sufficiently liquid to meet any sudden reversal of trend.

The stock market has been firm all week, and bonds were strong. Gold shares were in heavy demand following the Roosevelt statement.

Industry continues to thrive. Electric power output was up nearly 11% in September, and for the 9 months was 8.2% above the level a year ago. Consumers have increased 13%.

Idle shipping declined 19% between July 1 and Oct. 1. Coal output increased 7% in September. Shipbuilding yards have twice the volume of orders they had last year at this time.

More Men at Work

Over half a million men have been reemployed since January without resort to any form of monetary or currency inflation and with but meager reliance on public works.

Among recent big orders secured in Lancashire in the face of strong competition are 2 of the largest orders for electric cranes and travelers placed in England since the war. The order went to the Vaughan Crane Co., of Manchester, and will demand a 25% increase in the working staff. One of the contracts is from a large firm of South American copper refiners. The other is from the Great Southern Railway of Ireland. In addition to American and German tenders for the South American order, 6 rival British firms submitted bids. The Irish order was taken from German competitors. Another big order has been secured by Ferranti, Ltd., of Oldham, for the first large British transformer to be installed in Finland—a direct result of the recent "British Week" in Finland. All large transformers previously installed in that Scandinavian country have been German or Swedish.

Textile machinists in Lancashire and the Midlands have booked large orders for mills in Southern China. Harold Briggs, technical expert who sails for Canton in January to supervise installation of this equipment, says the Chinese are determined to stem Japanese competition and that they promise to "Buy British" throughout.

Rubber restriction talks are progressing favorably. Dutch representatives are expected in London this week for secret conversations, and a meeting is slated for Nov. 22 in Batavia between the government of Sumatra and Borneo. British stocks of rubber have fallen for 17 weeks successively.

The British are gloating over the success of the Argentine bond flotation which liquidates blocked British credits in the Argentine, and assures British exporters of a preferred place in the Argentine market. It is looked upon as a first step in the general liquidation of frozen currencies, until now a main factor of depression of major British industries.

France

Government falls on budget; Parliament unwilling to vote economies; political future obscure.

PARIS (*Wireless*)—President Roosevelt's announcement of a managed dollar policy is considered by many Frenchmen to have come at an opportune time, and possibly saved the franc from going off the gold standard. Certainly, the position of the currency had been no more critical since 1926. The move, some consider, allowed Parliament to overthrow the Daladier government at a time when they would otherwise have felt it necessary to support him as a means of supporting the franc. Especially, it has split the Marxian Socialist party to the point where they are no longer a potent political factor in the current situation.

Financial Paris believes now that the budget is likely to become a political football which will be kicked back and forth in many a Parliamentary session before agreement is reached, for a majority seems to feel that no budget is better than a bad budget.

The political situation is most obscure, much depending on future developments in the United States, particularly regarding monetary policy. Weak dollars fortify francs which, when stable, allow the placing of short-term treasury bills in London in large enough quantities to keep the French treasury afloat. The great danger is the vast and increasing floating debt which some day, somehow, must be reduced. Just now, this is looked on as a perpetual bugbear which can again be put off.

Germany

Industry gains; employment is steady; share of industrial output exported dwindles.

BERLIN (*Cable*)—Though Germany is absorbed in the government's campaign which will culminate in the balloting on Nov. 12, the outcome is assured. Business is little disturbed by the prospect, and political optimism is maintained.

The industrial outlook remains fairly favorable. Unemployment has not declined in recent weeks but the government is making every effort to check the usual winter increase. Industrial production is now 32% above the January low. Steel output is running 60% above levels a year ago; coal output is up 10%; electricity 13%.

The recent firmness on the bond market is maintained but is due to the prospect that the Reichsbank will begin open market operations this week similar to those pursued by the Federal Reserve Banks under the Roosevelt program.

Exports Sag

Real gloom is caused only by signs of lagging purchasing power at home, despite the gain in employment, and by the outlook in the export field. The Government Bureau of Business Research, in its latest bulletin, has revealed the effect on German industry of the dwindling foreign demand for German products. Where in the first quarter of 1932 more than 30% of industrial output was exported, only 23% was exported this year in the same quarter. And in the second quarter of 1933, a bare 21% of total output was sold abroad. These figures confirm the suspicion that export trade has been declining much faster than domestic sales in the course of the depression.

Far East

Tension eased by Washington move to recognize Russia. French may invest in Manchukuo through South Manchuria Railway Co.

FOLLOWING the announcement that Washington has invited the Soviets to the United States for informal talks on the question of recognition, tension in

the Far East between Tokyo and Moscow has eased.

Two developments in Japan have attracted trade interest abroad. South Manchuria Railway officials admit that French financial representatives have approached them with plans for the investment of a large sum of French money in the development of Manchukuo. Details are still withheld. S. M. R. officials also announce that they have entered negotiations with the Soviet Naphtha Syndicate for heavy shipments of Soviet gasoline due to the anticipated heavy increase in demand for oil in Manchukuo. The railway has decided to back a road-building program expected to increase gasoline demand annually 10 million gallons.

Electric light bulb manufacturers have formed the Japan Electric Bulb Association which will attempt to counteract, through a united effort, the pressure of foreign competition on great world markets. According to the Tokyo *Asahi,* Japanese electric bulbs have been given considerable pressure by foreign bulb makers, especially General Electric, during the last few months. The new Association is backed by the Ministry of Commerce and Industry.

In China, a special Cotton Commission has been organized under the National Economic Council for the purpose of developing a program for improving all phases of China's domestic cotton industry (see "Great Britain"). The president of the Shanghai Commercial Savings Bank will be chairman of the commission.

Latin America

England wins trade advantage in Argentine. French products boycotted by Brazil.

NOTHING in Latin American news this week has caused a greater stir than the announcement that American funds blocked in the Argentine before May 1 are to remain frozen there unless the United States takes the initiative to thaw them through a new funding arrangement with the Argentine government or an increase in the volume of purchases from Argentina. An American committee representing the industries whose funds are frozen is negotiating with the Argentine.

Brazil has doubled the import duties on all French products in retaliation for a French increase last July in the duties on Brazilian coffee. British and American interests are still negotiating for the liquidation of funds frozen in Brazil. Cuba remains relatively quiet. Mexico is continuing with plans for the 6-year reconstruction program. All countries are planning for the meeting of the Pan American Union in Montevideo.

Figures of the Week

Commodity advances following announcement of new currency policy featured the week. Production in basic industries is still lagging. Steel rail cut surprises. Public construction is now appearing in substantial volume.

MONETARY considerations again steal the spotlight. The gloom which the refunding of the Liberty Loan brought a week ago is now yielding to the uncertainty of inflationary policies proposed in the President's radio address. Commodity, stock and gold prices snapped out of the rut and moved upward. Earnings statements now coming to light reflect considerable improvement during the third quarter. Not that all, or even a majority of concerns, have managed to squeeze out of the red, but losses have been substantially reduced. With prices to be stimulated to higher levels, the outlook for the future balance sheet should be brighter.

The September lull still hangs heavily over basic industries. The Federal Reserve Board's index of production, adjusted for seasonal fluctuations, dropped to 84% of the 1923-1925 level from 91% in August as steel, textile, and lumber output slumped sharply. On the other hand, the steady improvement in newspaper advertising lineage indicates reviving confidence and a determination to loosen up the consumer pocketbook. So far, groceries and low-priced goods have reaped the major benefits. Department store sales are still lagging.

Renewal of interest in Russian trade following the overtures made to Russia by the President offers another prospect to machine and agricultural industries, though, like the public works projects long on the horizon, it will take several months before any beneficial effects are felt.

Construction in October appears to be predominantly a matter of public awards. Highway lettings have reached the highest level in 2½ years after much goading by the Administration. Allotments of federal funds have passed the $2-billion mark, but most of this amount has been for federal projects. F. W. Dodge Corp., reporting for the first 12 business days of October for 37 states, announced that $44.2 millions out of a total of $64.9 millions of contracts fell in the public works and utility class. This means a 52% increase in the daily rate compared with September, and a 58% gain on last year's rate. Not since January has this class of construction exceeded that of a year ago.

On the other hand, the outlook for buildings, both residential and non-residential, begins to fade. Only $8.2 millions of contracts were signed for residence purposes, a 29% decline from the September rate, and 22% below the modest level of a year ago.

For other buildings of a private and public nature, some $12.6 millions were contracted, which is 31% under the September daily rate and 3% below October, 1932.

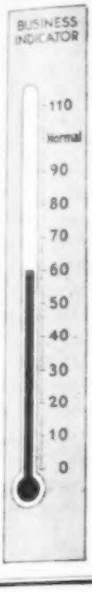
It is the great bulk of public projects which pulled the first half of October 10% ahead of last month's rate and as much as 26% ahead of that of a year ago.

Rail Business

Just as the steel operating rate began to approach the low levels prevailing last spring, came announcement of the long-awaited cut in steel rail prices. The reduction fell somewhat short of expectations. Coordinator Eastman had bluntly expressed the view that "the base price should be below rather than above $35 a ton." The simultaneous

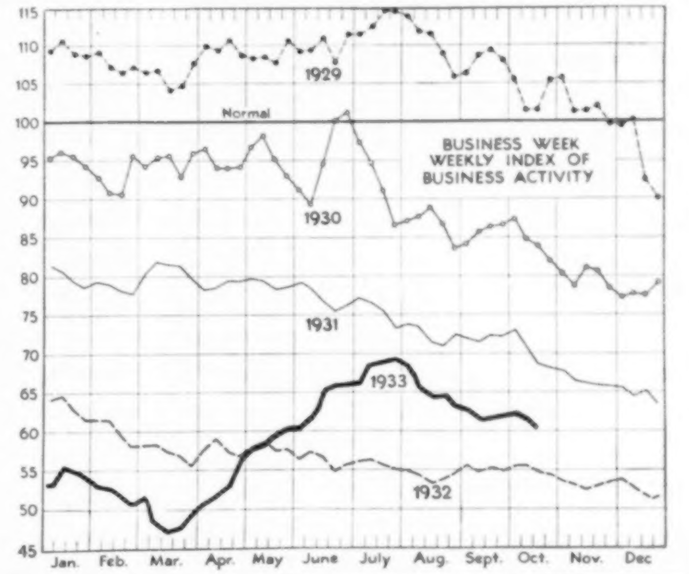
BUSINESS WEEK WEEKLY INDEX OF BUSINESS ACTIVITY	Latest Week	Preceding Week	Year Ago	Five-Year Average (1928-1932)
	*60.2	†61.8	54.8	......
PRODUCTION				
Steel Ingot Operation (% of capacity)	31.8	34	20	53
Building Contracts (F. W. Dodge, daily average in thousands, 4 weeks' basis)	$5,085	$4,910	$4,999	$14,541
Bituminous Coal (daily average, 1,000 tons)	*1,112	†943	1,315	1,630
Electric Power (millions K. W. H.)	1,169	1,619	1,528	1,674
TRADE				
Total Carloadings (daily average, 1,000 cars)	111	109	108	158
Miscellaneous and L. C. L. Carloadings (daily average 1,000 cars)	70	70	70	101
Check Payments (outside N. Y. City, millions)	$3,145	$2,719	$3,250	$5,057
Money in Circulation (daily average, millions)	$5,665	$5,679	$5,641	$5,070
PRICES *(Average for the Week)*				
Wheat (No. 2, hard winter, Kansas City, bu.)	*$.75	$.81	$.45	$79
Cotton (middling, New York, lb.)	$.095	$.093	$.063	$.123
Iron and Steel (STEEL, composite, ton)	$31.59	$31.59	$29.32	$32.79
Copper (electrolytic, f.o.b. refinery, lb.)	$.075	$.076	$.054	$.110
All Commodities (Fisher's Index, 1926 = 100)	71.5	72.2	61.1	81.2
FINANCE				
Total Federal Reserve Credit Outstanding (daily average, millions)	$2,512	$2,468	$2,2[illegible]9	$1,717
Total Loans and Investments, Federal Reserve reporting member banks (millions)	$16,592	$16,536	$17,068	......
Commercial Loans, Federal Reserve reporting member banks (millions)	$4,970	$4,933	$5,272	......
Security Loans, Federal Reserve reporting member banks (millions)	$3,673	$3,637	$3,917	....
Brokers' Loans New York Federal Reserve reporting member banks (millions)	$815	$781	$433	$3,107
Stock Prices (average 100 stocks, Herald Tribune)	$93.81	$95.92	$84.98	$138.93
Bond Prices (Dow, Jones, average 40 bonds)	$84.02	$84.73	$79.53	$90.08
Interest Rates—Call Loans (daily average, renewal) N. Y. Stock Exchange	.8%	.8%	1%	3.8%
Interest Rates—Prime Commercial Paper (4-6 months) N. Y. City	1¼%	1¼%	1¾-2%	4.1%
Business Failures (Dun and Bradstreet, number)	282	257	535	477

*Preliminary †Revised



The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures —steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For any further information, write the editor.



posting of a price of $37.75 by the 4 major rail companies took steel companies and railroads by surprise. Trade papers contend that the reduction which the rail producers have emphatically denounced was the result of pressure and consideration of winter relief problem. Just how much of the accumulated rail business of 800,000 tons or more will be parcelled out at this price has not been announced.

Production Declining

That a good volume of business is required at the moment to break the downward trend of operations is without question. The motor industry is in the midst of the transition period from old to new model production. The latter has been delayed by strikes, thus postponing production schedules. September output declined 17% from August to a total of 201,890 units in the United States and Canada. But this compares with a meager total of 86,492 a year ago, making this year's production more than 133% above September, 1932. *Iron Age* now forecasts that October will fall to about 130,000 units. Sales continue at a good pace, and now probably exceed the production rate. Stocks will be fairly well cleaned up this year, as consumers become worried about next year's price prospects. Polk estimates that September motor sales will run as high as 155,000, with an additional 20,000 for trucks.

A new statistical service was initiated by the American Iron and Steel Institute this week in the publication of a weekly estimate of the steel operating rate of concerns representing 98% of the capacity of the industry. This official figure probably will replace the several unofficial series whose variations have often caused confusion. Hence, the estimate of 31.8% now appearing in our table under the caption "Latest Week" represents operating rate for the week beginning Monday, Oct. 23. For comparative purposes with a year ago and the 5-year average, we shall depend upon the Dow, Jones series as heretofore. This rate is a sharp reduction from that of almost 34% the preceding week (Dow, Jones) and 38% two weeks ago.

Soft coal production reversed the long downward trend by expanding 18% during the week ending Oct. 14, a result of the reopening of commercial mines following a protracted strike.

Power production for the week ending Oct. 21 remains practically unchanged from the preceding week, though failure of any seasonal expansion reduced the spread from a year ago to 5.9%. In the Middle Atlantic states, the margin of gain is now less than 2%; in the Southern states, less than 4%.

Coal Lifts Carloadings

The slight rise in carloadings recorded during the week ending Oct. 14 was due entirely to the sharp gain in coal and livestock loadings. Every other classification declined. October usually marks the peak of freight shipments. A year ago, the peak was reached during the week ending Oct. 15.

Check transactions for the week ending Oct. 18 failed to rise sufficiently to hold the index at last week's level. In New York City, the loss in volume from a year ago was as much as 17.5%. For the 140 centers outside of New York, it was held to slightly more than 3%.

Business failures, which for weeks have hovered at unusually low levels, are now rising. The trend is normally upward toward the close of the year, so that the current situation is not particularly significant.

New Price Levels

With the RFC now purchasing gold at prices above the world quotation, attention will be fixed upon the effect exerted on stock and commodity prices. Wheat prices responded quickly, with December futures rising about 20¢ a bushel from the low of Oct. 16. Corn rose about 10¢ a bushel. Where a week ago, it was difficult to locate a raw material market that had not succumbed to the glum outlook of traders, it is now difficult to find a commodity that did not strengthen its price quotation. In addition to the normal trade, the government continues to perfect plans for its own purchases of surplus products of wheat, cotton, pork and beef for relief purposes.

The strike of farmers in the Northwest is being met by plans to extend aid in the form of loans through the Agricultural Adjustment Administration. On corn, as much as 50¢ a bushel will be available to those farmers who agree to curtail their 1934 corn acreage by 20% and the number of hogs marketed by 25%. Farm warehouse laws will have to be enacted in at least 4 principal corn-raising states before aid can be granted.

Non-ferrous metal markets spurted under the stimulus of the new gold-buying program. Copper advanced to 8¼¢ a pound, delivered. Custom smelters secured the business as producers are holding out for a 9¢ minimum. Lead was active. Tonnage sales ran as high as 9,000 tons for the week. Tin and silver advanced, but zinc remained steady.

The Financial Markets

President's talk clarifies Administration's price policy. RFC starts buying gold. Stocks spurt upward. Commodities strengthen. High-grade bonds are unsettled, but second-grades are up.

Money

It's inflation. This was the answer given by the President's radio address and the subsequent action of the Reconstruction Finance Corp. in pushing the buying price of gold to new high levels in the drive to cheapen the dollar and raise prices.

The conservative press had succeeded in conveying the impression that the Administration had definitely set aside its previously announced program of increasing the price level. Advocates of "sound money" had almost succeeded in getting the country to believe that Mr. Roosevelt had made an about-face in his price policy. In consequence, the deflationary trend of commodities and securities had been resumed, and agrarian discontent again had raised its head in the West.

Policy Now Clear

It must be conceded that the President's action came late, maybe too late, fully to repair the unsettled feeling in the wake of the deflationary trend. But, at any rate, now that the President has reiterated in no uncertain terms that he proposes to establish a managed currency, to stabilize the purchasing and debt-paying power of the dollar, uncertainty as to the monetary course of the Administration has been replaced by definite knowledge of the trend. The final goal is not so clear, but the farmer and business man may now be assured that the influence of the Administration will be thrown vigorously toward higher prices.

The first effect of the President's speech was a steep decline of the dollar which, on Monday, fell in terms of the franc from 71¢ to 69¢. A day later, when the Reconstruction Finance Corp. announced its buying price for gold, there was a wild scramble to sell foreign non-gold currencies. The British pound sterling, chief sufferer, fell to \$4.74, subsequently rising to \$4.76⅜, showing a net loss of 2⅛¢ for the day. Gold currencies, on the other hand, were up. The net effect was a diverse movement of the dollar—up against paper currency, down against gold. The first new buying price on gold had not been as high as anticipated.

It should not be overlooked that the Reconstruction Finance Corp. is not paying for gold with money but with 90-day debentures, which will bear an interest rate of ¼%.

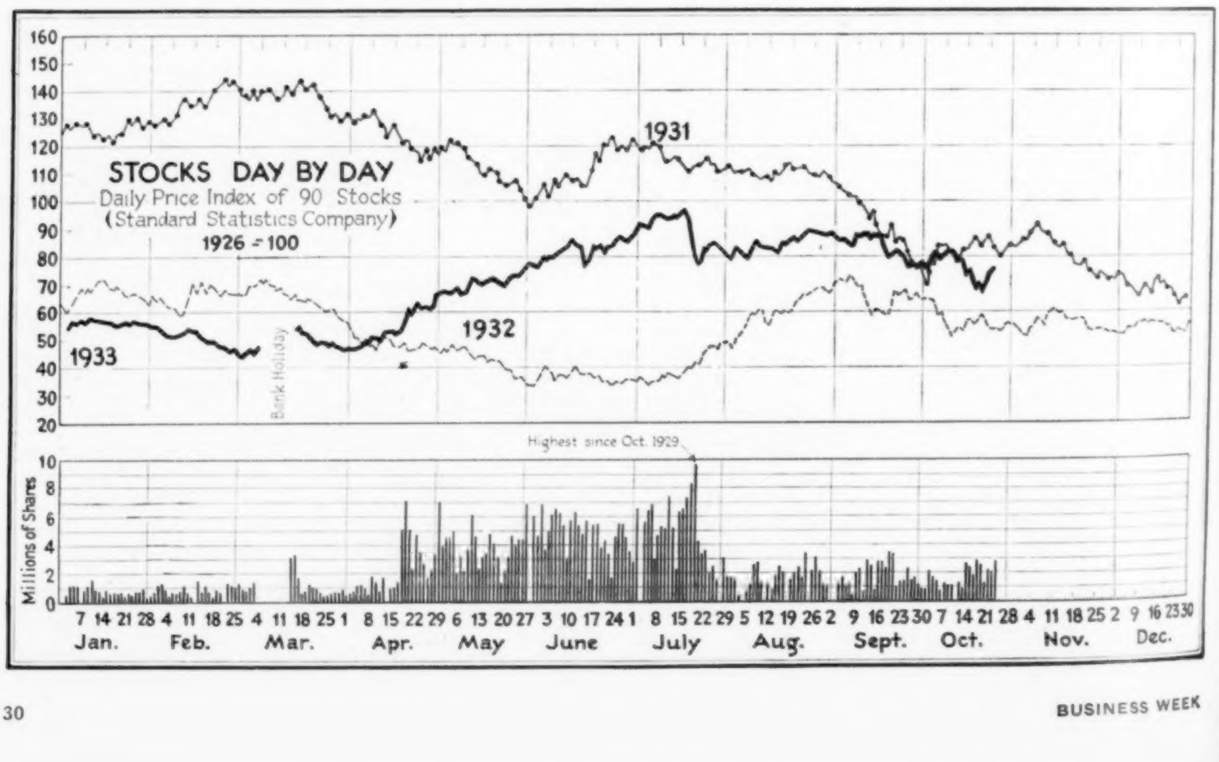
Other financial news is orthodox enough. The Federal Reserve continues to buy United States government securities. Federal Reserve notes in circulation have dropped \$15 millions, offset by a \$2 million increase in Federal Reserve bank notes in actual circulation. (Total of Federal Reserve notes in circulation is now \$172 millions.) The member banks continue to pay off their obligations to the Federal Reserve banks and have increased their reserve balances by the astounding amount of \$88 millions. The reserve account is now fully \$360 millions more than during the corresponding weeks last year.

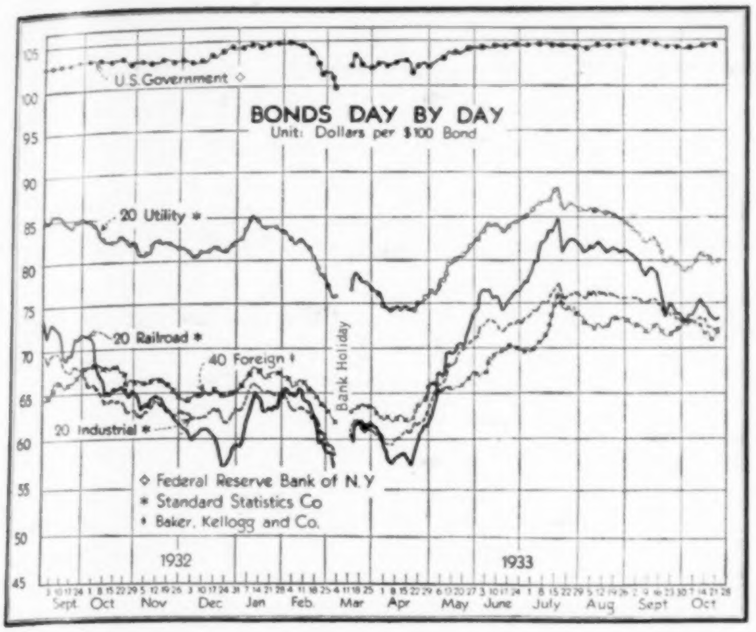
Nothing startling is revealed in the condition statement of the weekly reporting member banks of 90 leading cities. Loans have increased \$73 millions, equally divided between loans on securities and all other loans. Investments both in United States government and other securities have dropped \$17 millions. Net demand deposits are \$173 millions higher in spite of withdrawal of \$83 millions in government bonds. The banks apparently are continuing to take a sideline position.

Commodities Rise

Commodities have strengthened considerably. December wheat had dropped to a low of 67¢ on Oct. 17 and from that point climbed steadily to a high of 86¢. December delivery of cotton which, on Oct. 16, had dropped to 8.76¢, recovered to 9.54¢. Copper recovered to 8½¢ a pound.

These advances on the commodity markets were made in spite of the discontinuance of government buying for relief purposes and in spite of profit scalping, actuated by doubt as to just what sort of inflation there is to be.





December delivery of corn was sent up 2¢ by Secretary Wallace's announcement of a processing tax of 28¢ a bushel after Nov. 4. With this levy it is estimated that the production control of corn and hogs will yield the farmers $350 millions additional income.

Bonds

INFLATION talk has now unsettled high-grade bonds. The reduction of the rediscount rate by Federal Reserve Bank of New York to 2% in place of the 2½% at which it had held since May 26, also affected bonds adversely, though the drop is a recognition that the rate has been grossly out of line with prevailing short-term money rates. For example, acceptances are quoted at 0.58% and prime commercial paper at 1.25%. The rediscount rate of 2% is, therefore, still high.

Though foreign bonds have gone up, they have not advanced enough to make up for the drop of the dollar. It might reasonably be expected that the continued decline of the dollar in terms of foreign currencies should make it easier for foreign corporations and foreign governments to pay their dollar obligations in the United States. The fact that foreign bonds on the whole have made only moderate advances when the drop of the dollar really amounts to a cancellation of a large portion of the debt is a revealing factor of the distrust in which foreign securities are now held by American bankers.

Second-grade bonds of corporations and railroads have been moving with the stock market, and made impressive gains after the President's nationwide address.

Stocks

THE successive crashes in the stock market which had begun on Oct. 14 were sharply reversed after the President's speech and the gold purchase price subsequently announced by the RFC. The gain is impressive, recovering in 2 days more than a third of the losses of the preceding 2 weeks. It is also significant that this gain was made on a reasonably large trading volume of from 2 to 3 million shares per day, hence cannot bear the stigma of a professionally manipulated market.

Of course, the gold and mining stocks made the best showing, but the benefits of the advance were distributed over a wide range.

The stock market had recently been tending to ignore the possibility of inflation and appraise stocks on a present earning basis, but the President's speech again changed the picture. For one thing, there was a sharp advance in commodities which justified immediate hopes that those corporations which carry large inventories would benefit. Then there was renewed talk of a flight from money.

Earnings Cut Less Ice

An undercurrent in the recent decline was pessimistic talk about "the attempt to restore prosperity by increasing the costs of doing business." NRA is the pet bogey of Wall Street. Third quarter earnings statements of corporations clearly show the marks of NRA costs, but, in spite of higher costs, they are surprisingly good, though not sufficiently good to justify recent stock prices. The stock market now is headed for another spree in which earnings will be ignored while the Street bets on the results of inflation.

BUSINESS WEEK
The Journal of Business News and Interpretation

OCTOBER 28, 1933

What Price Gold?

WALL STREET and the farm belt campaigned vigorously for weeks to wring from the President a declaration of monetary policy. Their ideas were diametrically opposed, but they agreed on one point—something had to be done right away. Whether this was true at the beginning is dubious, but it certainly became true after awhile, for the widespread agitation itself whipped the public and the markets into such a state of nerves that some announcement was highly advisable.

Neither the "hard money" conservatives nor the wild inflationists will be wholly pleased with the Roosevelt policy. But moderate minded men in both camps should find things to approve.

The farm belt gets a renewed pledge that the Administration intends to raise the price level until it will support the structure of debt contracted in better times. To raise prices is the primary aim of the Administration, all else must contribute to this, or be subordinated to it.

The financial community is reassured that no greenback inflation is contemplated, that we go ahead with a dollar based on gold. It is plain, too, that the intention is to preserve a greater stability of the dollar in terms of foreign exchange. Buying and selling of gold by the R.F.C. is our choice instead of a stabilization fund like the British.

Devaluationists are not wholly triumphant. They have preached that the thing to do was to fix the gold content of the dollar at some new and lower figure, and then manfully to stick to the new standard. The President answered sensibly that this was to put the cart before the horse. No man could decide today what the eventual gold weight of the dollar should be. But in those very words, the President made clear that eventually there will be a new standard for the dollar. Purchase of gold at a price above the statutory $20.67 an ounce formally recognizes devaluation.

A large section of the daily press complains bitterly that the statement of policy is not sufficiently detailed. It would have been strange indeed if the President had attempted to give blue-print specifications of highly technical character to a radio audience of millions. France and Britain made no public announcement at all when they began to manage their exchanges.

One passage in the President's speech towers in significance high above the words which deal with immediate affairs. Once more, the Administration announces its determination to establish a dollar which for a generation shall not vary in its purchasing power.

There is naturally enough no hint as yet of how this is to be attempted. There are suggestions in plenty; eminent authorities have seen that stable money would be a matchless boon to mankind and have devoted years to the problem. One plan is to change the gold content of the dollar from time to time, governed by the rise or fall of a commodity price index—in other words, to make the price of gold movable instead of the price of goods. Another belief is that Federal Reserve maneuvers with the rediscount rate and buying and selling of bonds could keep prices steady. Other techniques are suggested—and it is argued that plans for managed money that might fail in an economic chaos where individualism ran wild might succeed in a planned economy.

Some such thinking as this runs through the minds of the Administration. One thing is certain, the experiment will be tried. Until the practical method to be adopted is disclosed, the country will reserve judgment, and until it is tested, be skeptical.

But it is a shining goal.

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